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FEDERAL BUREAU OF INVESTIGATION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**TRIAL BRIEF OF
WATCHTOWER BIBLE AND TRACT SOCIETY
OF NEW YORK, INC.**

Re: Periodicals Nonprofit Letter-Shaped Mail

**TRIAL BRIEF OF
WATCHTOWER BIBLE AND TRACT
SOCIETY OF NEW YORK, INC.**

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INTRODUCTION

The Watchtower Bible and Tract Society of New York, Inc. (“Watchtower”) is a non-profit publisher of Bible-based journals. Its two main journals are *The Watchtower* (USPS 0668-580; ISSN 0043-1087) and *Awake!* (USPS 039-200; ISSN 0005-237X). These journals contain no outside advertising and qualify for the Periodicals non-advertising per-pound rate. All literature published by Watchtower is distributed without charge to those who wish to read it.

Watchtower sends out a total of approximately 50,000,000 Periodicals letter-shaped mail pieces each year through the U.S. Postal Service. It is one of, if not the, largest mailers of Periodicals nonprofit letter-shaped mail in the country.

The Postal Service proposes to increase Periodicals letter-shaped rates based solely on the increased cost of processing flat mail. The purpose of this brief is to contest the substantial increase to Periodicals nonprofit letter-shaped mail and to show that the proposed increase is unfair and unwarranted.

As stated in Order No. 1289, issued by the Postal Rate Commission on March 28, 2000: “The inflation-adjusted costs of processing letters are steadily declining, which has alleviated the pressure for rate increases.” Watchtower asserts that the extent of the proposed rate increase to various categories of Periodicals letter-shaped mail is unsubstantiated. Those categories are **1)** the 3-digit auto per-piece rate, **2)** the 3-digit nonauto per-piece rate, **3)** the basic auto per-piece rate, **4)** the basic nonauto per-piece rate, and **5)** the non-profit, non-advertising per-pound rate for letter-sized Periodicals mail.

If the proposed rate increases are implemented, Watchtower will pay an additional 23.7%

at the per-piece rate and 11.7% at the per-pound rates to mail 25,000,000 pieces sent per year for the rate categories referred to in the previous paragraph. This increase is excessive for nonprofit letter-shaped mail. Rather, the increase for Periodicals letter-shaped mail should be commensurate with the proposed increases for other classes of letter-shaped mail, since these are processed on the same automation equipment.

FOCUS OF BRIEF

Watchtower contests the following *four per-piece rates and the per-pound rate affecting non-profit letter-shaped Periodicals mail*; 1) 3-digit auto (24.4% increase), 2) 3-digit nonauto (17% increase), 3) basic auto (22.1% increase), 4) basic nonauto (13.5% increase), and 5) the non-profit, non-advertising per-pound rate. Because these rate increases would apply to Periodicals letter-shaped mail, Watchtower will experience a 23.7% increase for the per-piece rates and an 11.7% increase for the per-pound rates for non-profit, non-advertising mail. (See attached charts.) Watchtower does not contest the increase for flat-size Periodicals mail or for Periodicals letter-shaped mail at the carrier-route or 5-digit auto rate, even though Watchtower mails over 200,000,000 copies each year at these rates.

POSTAL SERVICE TESTIMONY AND WATCHTOWER'S RESPONSES

Witnesses Walter F. O'Tormey (USPS-T-42) and Dennis R. Unger (USPS-T-43) provided testimony on behalf of the Postal Service. Mr. O'Tormey briefly explains why the proposed rate increase for Periodicals flat mail is so high in comparison to the proposed rate increase for First-class and Standard A letter mail. However, the testimony of Messrs. O'Tormey and Unger deals almost entirely with the increased cost of processing and delivering *flat-shaped*

mail. Specific aspects of their testimony detailing the increased cost of processing flat mail and Watchtower's responses are noted below.

Testimony from Mr. Unger
(USPS-ST-43 p. 3, lines 4-14)

Discussing factors that affect periodicals mail processing costs, Mr. Unger testified:

The physical characteristics of flat mail has an important influence on processing costs. Mr. O'Tormey describes a number of these characteristics that affect automated processing costs of flats generally, such as shape and edge characteristics that tend to require rotation of the mailpiece when feeding into automated equipment. . . . [T]here are two issues relating to mailpiece characteristics shared by a significant amount of Periodicals flats that are particularly relevant: newspaper dimensions and poly-wrap. The presence of these characteristics tends to result in higher processing costs for Periodicals.

Watchtower's Response

Mr. Unger was referring to costs that do not apply to letter-shaped mail. The physical characteristics of Periodicals letter-shaped mail allows it to be processed on the same automation equipment as First-Class and Standard A letter-shaped mail. Rates for Periodicals letter-shaped mail should not increase due to increased costs for processing some categories of flat-size mail, since letters are handled using entirely different mail processing equipment and processes than are flats.

Testimony from Mr. Unger
(USPS-ST-43 pg. 4, lines 3-6)

In his testimony about mailer preparation, Mr. Unger discussed the effects of line-of-travel preparation.

Some mailings in other classes arrive in a line-of-travel sequence, but this is not a requirement with Periodicals. A bundle that is not line-of-travel sequenced requires the carrier to sort to compartments all over the routing case.

Watchtower's Response

Periodicals letter-shaped mail qualifying at the automation rates has the same preparation requirements as other letter-size automation mail. The *Domestic Mail Manual* (DMM M810.1.1) states: "Letter-size automation rate First-Class Mail, Periodicals, and Standard A Mail (A) must be prepared under M810 and the eligibility standards for the rate claimed." Automation letter-shaped mail is prepared in trays and processed by postal bar code sorters into carrier line-of-carrier sequence; this is true whether the letter mail is First-Class, Periodicals, or Standard A. It logically follows that the same percentage of increase should apply to Periodicals letter mail as applies to First-Class and Standard A letter mail.

Testimony from Mr. Unger (USPS-ST-43 p. 4 lines 12-15)

Continuing on the factors affecting Periodicals mail processing costs, Mr. Unger stated:

How well Periodicals mail is bundled can also affect costs. Frequently, I see broken bundles that have to either be re-strapped at an additional cost or that have lost their internal integrity entirely and must be worked as individual pieces at a significantly higher cost."

Watchtower's Response

Periodicals letter-shaped mail is prepared in trays, and is not bundled on pallets or in sacks. Therefore, bundle breakage of flat-size mail does not apply to letter-shaped mail, and the added cost of dealing with bundle breakage of flat-size mail should not be attributed to letter-shaped mail.

Testimony from Mr. Unger (USPS-ST-43 p. 4, line 30 – p. 5, line 12)

Still on the subject of factors affecting Periodicals mail processing costs, Mr. Unger discussed container characteristics. He mentioned that:

Mail of all classes frequently arrives in pallets and sacks. Pallets are generally the easier to handle, because the mail pieces are brick-stacked on the pallets, easy to dump and easy to process. . . . Sacks are more difficult to handle. . . . To the extent that Periodicals use sacks, that class will more likely also experience increased cost from broken bundles and from mailpieces that can't be processed on automation.

Watchtower's Response

Mr. Unger's comments do not apply to letter-shaped mail, which is not packaged in sacks. As with First-class and Standard A mail, Periodicals letter-shaped mail is submitted in strapped trays that are easy to handle.

Testimony from Mr. O'Tormey (USPS-ST-42 p. 10, line 14 – p. 11, line 6)

In his testimony, Mr. O'Tormey compared the high cost of processing flat-size mail to the relatively low cost of processing letter-shaped mail. His said :

Certain physical characteristics of letter mail contribute to lower processing costs. Letter mail is more uniform in size and shape, which allows better optimization of processing equipment parameter settings.

The application and use of barcodes and/or ID Tags on letter mail have greatly reduced the cost of processing letters. The application of an 11-digit barcode or ID Tag equivalent at the first handling on automation saves costs on downstream processing operations. This allows the letter to remain in the highly efficient automation mail stream.

The processing equipment used by the Postal Service to distribute automation compatible letter mail utilizes one induction station, as opposed to four for flat equipment. It also processes mail at a much higher speed than flat sorters, and requires less staffing. Letter mail is presented in full trays for processing, as opposed to being presented in packages, like flat mail. This makes letter mail easy and efficient to load.

Watchtower's Response

Watchtower agrees with Mr. O'Tormey's comments. Since the Postal Service and the mailing industry have invested heavily in letter shaped preparation and processing equipment, First-Class and Standard A mailers are reaping the benefits with only a modest postage rate increase. Periodicals letter-shaped mail should enjoy the same benefits as First-Class and Stan-

dard A mail, since they are prepared using the same requirements and handled through the same processing streams.

In the past, the Postal Service has encouraged the mailing industry to prepare automation compatible letter-shaped mail. However, with R2000-1 rate case, the Postal Service would increase non-profit automation 3-digit rates for letter-shaped mail by 24%! Postal Service witness Altaf H. Taufique (Tr. 17/7037-38), mentions that this sends a mixed message to the mailing industry. As quoted by Rita D. Cohen (MPA-T-1), he stated: "And especially in the area of bar code discounts, if you are looking at those, there were three thoughts that I had. When we give a signal to the mailing community, they make substantial investments to follow through on our signals, and if you change those signals overnight, that can cause a problem for the business community." (MPA-T-1 p.36, lines 25-30)

This is true for Watchtower, which in recent years has invested heavily in equipment to prepare automation letter-shaped Periodicals mail. Now, with the recommended increase, the non-profit Periodicals 3-Digit auto letter-shaped mail would be increase by 24%.

**LETTER SHAPED MAIL IS LESS EXPENSIVE
TO PROCESS THAN IS FLAT MAIL**

The Postal Service initiative over the last decade to automate and streamline the processing of letter-shaped mail has proven very successful and profitable. The Postal Service states on its Web page;

"As a result of the success of the letter automation program, increases for letter-shaped items, particularly First-Class Mail, are generally smaller."

While testifying about Periodical rates, Postal Service witnesses verified that letter-shaped mail costs less to process than does flat mail. Mr. O'Tormey stated:

Using annual data for mail processing and carrier in-office since 1989, the Commission illustrated in several graphs a trend of steadily declining costs for First-Class Mail (FCM) and Standard A Mail letters.(USPS-ST-42 p. 4, lines 6-8)

Though Mr. Unger stated that, during the fiscal year 1998, costs for processing Periodicals rose for specific reasons, he did not discuss the difference between relative increases in costs for Periodicals that are flat-sized and those that are letter-shaped. But, speaking about the costs of processing letter-shaped mail in general, he commented:

I also believe this theory is consistent with the fact that costs for letter operations during the same period didn't rise. That would occur because the letter systems were not stressed in the same way as were the flat, manual, and material handling operations. (USPS-ST-43 pg. 13 lines 4-7)

Order 1289 Attachment A, pages 2-3, shows that costs for processing letter-shaped mail have decreased since 1989. This is consistent with the testimony of both Postal Service witnesses who agree that the Postal Service's letter automation program has been successful. Their testimony supports Watchtower's position that rates for Periodicals letter-shaped mail should increase only moderately consistent with increases for other letter-shaped mail.

**THE PROPOSED RATE INCREASES ARE UNFAIR BECAUSE
THEY WOULD CAUSE A GREATER PERCENTAGE OF
INCREASE FOR LETTER-SHAPED THAN FLAT-SHAPED MAIL**

If left as proposed, the requested rate increases would result in a greater percent of increase for Periodicals letter-shaped mail than for Periodicals flat mail. As noted in the testimony of Rita D. Cohen, a witness for members of the Magazine Publishers of America (MPA), the yearly postage for flat size mail of MPA members would increase an average of 14.9 %. (MPA-T-1 pg. 40) On the other hand, the non-profit letter-shaped rates would increase by 23.7% for Watchtower. Since the cost of processing letter-shaped mail is substantially less than for processing flat-sized mail, this result would be patently unfair. On the other hand, there are so few

mailers which use the Periodicals letter-shape rates that retaining the current rates would have a negligible effect on the overall revenues for the Postal Service.

WHAT WATCHTOWER ASKS THE COMMISSION TO DO

Nonprofit organizations that do not carry outside advertising and which have worked with the Postal Service over the years to present letter-shaped automation-compatible mail should not be hit with the highest rate increases. Periodicals letter-shaped mailers should reap the same benefit from lower processing costs as do other classes of letter-shaped mail. Therefore the Commission should:

1. Retain the current rates for letter-shaped Periodicals rates as part of R2000-1.
2. If the current rates are not retained:

A. Implement modest increases for Periodicals letter-shaped mail, commensurate with the increase for First-Class letter-shaped mail, as shown in the chart below. (The percent of increase shown below takes into consideration the non-profit and the non-advertising discounts.)

RECOMMENDED PERIODICALS NONPROFIT LETTER-SHAPED RATE INCREASES

| Mail Sortation | Percentage of Increase Proposed by Postal Service | Percentage of Increase Recommended by Watchtower |
|-------------------------------|---|--|
| Basic nonauto | 13.5% | 3.0% |
| Basic auto | 22.1% | 3.6% |
| 3-Digit nonauto | 17.0% | 4.7% |
| 3-Digit auto | 24.4% | 3.7% |
| Nonadvertising Per-Pound Rate | 11.7% | 3.0% |

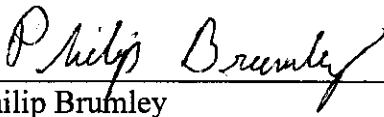
B. Require the USPS to provide the Postal Rate Commission with proof of the need to raise rates for letter-shaped Periodicals mail.

REQUEST FOR VERBAL PRESENTATION.

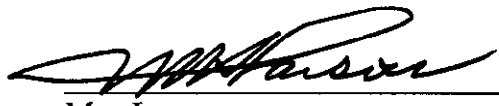
Watchtower requests permission to make a 15 minute verbal presentation before the Commission.

Respectfully submitted,

Watchtower Bible and Tract Society of New York, Inc.



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Max Larson
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PROPOSED 2000 OMNIBUS RATE CASE
Nonprofit Periodicals letter-shaped mail

| Mail Sortation | Current Rate ¹ | Proposed Rate ² | Increased cost per piece | Percentage of increase | Percentage of Watchtower's mail sent at each presort level ³ |
|-----------------|---------------------------|----------------------------|--------------------------|------------------------|---|
| Basic nonauto | 0.207 | 0.239 | .032 | 13.5% | 1.9% |
| Basic auto | 0.145 | 0.186 | .041 | 22.1% | 18% |
| 3-Digit nonauto | 0.164 | 0.198 | .034 | 17.0% | .01% |
| 3-Digit auto | 0.117 | 0.155 | .038 | 24.4% | 80% |

- 1 The rates used were obtained by subtracting the non-advertising discount (.044) from the non-profit rate.
- 2 The rates used were obtained by subtracting the non-advertising discount (.066) and the 5% purposed deduction for non-profit mailers from the proposed commercial rates.
- 3 Percentage of Watchtowers' Periodicals letter-shaped mail sent at each of the contested rates

PROPOSED 2000 OMNIBUS RATE CASE
Nonprofit Standard A letter-shaped mail

| Mail Sortation | Current | Proposed | Increase per piece | Percentage of Increase |
|-------------------|---------|----------|--------------------|------------------------|
| Basic nonauto | 0.169 | 0.159 | \$0.010 | - 6.3% |
| Basic auto | 0.119 | 0.129 | \$0.010 | 7.8% |
| 3/5-Digit nonauto | 0.142 | 0.150 | \$0.008 | 5.3% |
| 3-Digit auto | 0.114 | 0.122 | \$0.008 | 6.6% |

Average Increase 3.35%

PROPOSED 2000 OMNIBUS RATE CASE
First-Class letter-shaped mail

| Mail Sortation | Current | Proposed | Increase per Piece | Percentage of Increase |
|---------------------|---------|----------|--------------------|------------------------|
| Basic non-presorted | 0.330 | 0.340 | \$0.01 | 3% |
| Basic auto | 0.270 | 0.280 | \$0.01 | 3.6% |
| 3-Digit auto | 0.261 | 0.271 | \$0.01 | 3.7% |

Average Increase

3.43%

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BEFORE THE
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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

Supplemental Testimony of

Dennis R. Unger
On Behalf of the
United States Postal Service

In Response
To Order No. 1289

1 (2) Expenses incurred in the preparation for the Fall, 1998 mailing season, so
2 that service levels would be acceptable.

3

4 I also believe this theory is consistent with the fact that costs for letter
5 operations during the same period didn't rise. That would occur because the letter
6 systems were not stressed in the same way as were the flat, manual, and material
7 handling operations.

8

9 IV. Flat Sorter Productivity: 1995 to 1999.

10 An analysis of flat sorter 881 productivity during the period 1995-1999 in the
11 Southeast Area follows, along with discussion of some possible drivers of that
12 performance.

13

14 A. Southeast Area FSM 881 Productivity

15 FSM 881 productivity in the Southeast Area for the past four years has followed
16 the national trend. The combined productivity (keying and BCR/OCR read) has
17 declined from 711 total pieces handled per workhour to 545 total pieces handled per
18 workhour. Analysis of this decline indicates that while some operational inefficiencies
19 have occurred, beneficial operational changes have had a very significant impact, but
20 have also contributed to the impression of a loss in productivity.

21 For example, sortation to carrier route has proven to be more efficient when
22 performed on FSM 881 equipment as compared to manual processing. However,
23 this activity does impact the throughput capability of FSM 881 equipment, because
24 processing time is lost whenever the equipment is changed from one set of five digit
25 zones to another. Since 1996, the ratio of incoming secondary volume to total FSM
26 881 volume in the Southeast Area has increased by 8.4 percent. In the Southeast
27 Area, we have also experienced a shift of volume to the relatively new FSM 1000s.
28 Since this machine is capable of processing a wider range of dimensions, weights,
29 and packing surfaces, many processing plants moved all volume for given operations
30 to this equipment. The most dramatic shift has been in SCF volume, which is
31 considered a simple and therefore highly productive operation.

1 **II. Factors Affecting Periodicals Mail Processing Costs**

2

3 **A. Factors Pertaining to the Physical Characteristics of the Mailpiece**

4 As noted in Mr. O'Tormey's testimony, the physical characteristics of flat mail has an
5 important influence on processing costs. Mr. O'Tormey describes a number of these
6 characteristics that affect automated processing costs of flats generally, such as
7 shape and edge characteristics that tend to require rotation of the mailpiece when
8 feeding into automated equipment. In contrasting the processing of Periodicals mail
9 with other types of flats, furthermore, there are two issues relating to mailpiece
10 characteristics shared by a significant amount of Periodicals flats that are particularly
11 relevant: newspaper dimensions and poly-wrap. The presence of these
12 characteristics tends to result in higher processing costs for Periodicals.

13 First, in my experience, magazines are not materially different in handling from
14 similar size Standard A or First Class mailpieces. Newspapers, however, are among
15 the most difficult mail pieces to handle, because of their size and shape, thickness
16 and tendency to bend when handled.

17 Second, from a field operations perspective, poly-wrap has been a difficult
18 experience. When it was introduced, operators and supervisors who worked it on
19 FSM 881 flat sorters discovered it to be a source of machine jams. Since then, poly
20 has been refined, but there are still problems. Given a choice of what kind of mail to
21 work on a FSM 881, a supervisor will work non-poly mail that he or she considers to
22 be more suitable for the FSM 881 machine. A supervisor may also work the poly-
23 wrap on a FSM 1000, but again if there is non-poly mail available, processing
24 personnel will tend to run that mail on the machines, and work the poly manually.

25

26 **B. Mailer Preparation**

27 When mail arrives at the entry processing facility, the preparation of the mail often
28 dictates whether it will be worked within the plant or in a delivery unit, on automated
29 equipment or manually, and what actions are required to prepare it for distribution.

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1. Line-of-Travel

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2. Bundle (Package) Characteristics

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3. Container Characteristics

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One relevant issue is how the mail is prepared. Some mailings in other classes arrive in a line-of-travel sequence, but this is not a requirement with Periodicals. A bundle that is not line-of-travel sequenced requires the carrier to sort to compartments all over the routing case. If the mail for a route is prepared in a line-of-travel sequence, however, the carrier can route the mail faster. This is due to the fact that the next piece to be sorted is usually very close in the line of travel to the compartment for the piece just sorted.

How well Periodicals mail is bundled can also affect costs. Frequently, I see broken bundles that have to either be re-strapped at an additional cost or that have lost their internal integrity entirely and must be worked as individual pieces at a significantly higher cost. In this regard, the weight of the piece contributes to the problem, because, while we maintain a limit of twenty pounds on a bundle, there are many overweight bundles. The weight of the pieces and the weight of the bundles stacked upon one another can cause bundles tied with string, a thin plastic strap, or a rubber band to snap. Postal processes that dump containers or that permit heavy bundles to drop can also break bundles. While these opportunities for breakage have been a factor in the past, I understand that recently measures have been initiated to minimize mail processing bundle breakage.

Whether the bundle is broken before or during processing, broken bundles are a significant cost. I know that there is a report by a joint USPS-Periodicals Industry Operations Review Team that identified bundle breakage as a cost factor, and I have been told that a team sponsored by MTAC is following up on the work of the first group.

Mail of all classes frequently arrives in pallets and sacks. Pallets are generally the easier to handle, because the mail pieces are brick-stacked on the pallets, easy

1 to dump and easy to process. Because the mail pieces have been brick-stacked,
2 they tend to maintain their shape and bundle integrity more than would identical mail
3 placed in other containers. There is a transportation cost that somewhat offsets the
4 value realized in pallets, because pallets take up more space on trucks.

5 Sacks are more difficult to handle, often containing relatively small amounts of
6 mail. In addition to being difficult to handle when compared to a pallet, sacks also
7 contribute to broken bundles. Mail bundles in sacks incur an even higher probability
8 of broken bundles and a lower probability that the mail in the sack will be machinable
9 (because the pieces inside are bent, etc.) than do similar mailpieces on pallets. To
10 the extent that Periodicals use sacks, that class will more likely also experience
11 increased cost from broken bundles and from mailpieces that can't be processed on
12 automation.

13 The term "skin sack" is used to refer to sacks containing only a few pieces of mail.
14 Periodicals mailers or printers sometimes use "skin sacks" for small volumes of
15 Periodicals mail going to isolated 5-digit areas. Based on my observations and
16 knowledge of mail processing, handling such sacks tends to increase processing
17 costs for Periodicals.

18

19 C. Service Considerations

20 Periodicals occupy a unique position in Postal processing hierarchy. Periodicals
21 only represent a small percentage of the total operations volume, but they represent
22 a majority of customer feedback on service. The customer feedback comes from all
23 types of customers — the publishers and the printers who are mailers and the
24 subscribers who are recipients. Service standards and the expectations of
25 customers significantly influence mail processing decisions and thereby affect mail
26 processing costs.

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28 1. Time Sensitive Nature of Periodicals Mail

29 Periodicals are time-sensitive, and there is an infrastructure in place to reinforce
30 the importance of service. Mailers regularly (and entirely appropriately) send Postal

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

Supplemental Testimony of

**Walter F. O'Tormey
On Behalf of the
United States Postal Service**

**In Response
To Order No. 1289**

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to provide a national operational
3 perspective to address the concerns raised by the Postal Rate Commission in
4 Order No. 1289. In Order No. 1289, the Commission depicted relative trends of
5 mail processing costs for letters and flats during approximately the last decade.
6 Using annual data for mail processing and carrier in-office costs since 1989, the
7 Commission illustrated in several graphs a trend of steadily declining costs for
8 First-Class Mail (FCM) and Standard A Mail letters. It contrasted this with graphs
9 depicting trends of both increasing and decreasing costs for various categories
10 of FCM and Standard A Mail flats over the same period of time, and a trend of
11 rising costs for Periodicals regular rate mail since 1993. The Commission also
12 noted a sharp increase in 1998 in unit costs for processing FCM and Standard A
13 flats.

14 In the following, I will comment on these trends, with particular
15 reference to the Postal Service's efforts over the last decade to automate mail
16 processing and to control costs, while improving service for the processing of
17 FCM, Periodicals, and Standard A flat mail. In this context, I will discuss the
18 challenges of automating flat mail compared to letter mail, and the challenges of
19 automating FCM and Standard A flat mail compared to Periodicals. I will also
20 discuss the challenges the Postal Service has experienced during the past
21 several years controlling flat mail processing costs and FSM 881 productivity,
22 while implementing flat mail automation strategies. In separate testimony filed
23 today, Dennis Unger, Manager, Operations Support, Southeast Area, addresses

1 the FSM 881, we began searching for an automated flats feeder for the FSM
2 881. Until recently, a viable feeder modification could not be found. In addition,
3 during this time, the Postal Service installed and evaluated an AFSM that was
4 equipped with automatic feeding, sweeping, and barcode reading technology.
5 Although this AFSM was not deployed, it helped define processing requirements
6 for future FSMs, such as the AFSM 100.

7

8 **IV. AUTOMATION MAIL PIECE CHALLENGES**

9 During the planning phase of the flat mail automation program, the
10 question was often asked "how did we do it with letters?" Often, a similar
11 approach would prove to be successful. However, flat mail is quite a different
12 product.

13 **1. Letter Mail Characteristics**

14 Certain physical characteristics of letter mail contribute to lower
15 processing costs. Letter mail is more uniform in size and shape, which allows
16 better optimization of processing equipment parameter settings. The "Address
17 Block" and "Barcode Clear Zone" for automation compatible letter mail are strictly
18 defined by the Postal Service and are universally accepted.

19 The application and use of barcodes and/or ID Tags on letter mail have
20 greatly reduced the cost of processing letters. The application of an 11-digit
21 barcode or ID Tag equivalent at the first handling on automation saves costs on
22 downstream processing operations. This allows the letter to remain in the highly
23 efficient automation mail stream.

1 The processing equipment used by the Postal Service to distribute
2 automation compatible letter mail utilizes one induction station, as opposed to
3 four for flat equipment. It also processes mail at a much higher speed than flat
4 sorters, and requires less staffing. Letter mail is presented in full trays for
5 processing, as opposed to being presented in packages, like flat mail. This
6 makes letter mail easy and efficient to load.

7 **2. Flat Mail Characteristics**

8 The physical characteristics of flat mail are not as conducive to automated
9 or mechanized processing as are the characteristics of letter mail. The flat mail
10 stream includes envelopes, flimsies, newspapers, digests, catalogs, and
11 magazines. The allowable variation in the size, weight, shape, and thickness of
12 flat mail makes it inherently more difficult to process. most bulk flats mailings are
13 prepared as packages or bundles. When bundles break open prior to
14 distribution, the benefit of any presort is lost. Also, additional costs are incurred
15 for attempts at bundle recovery or for individual piece distribution. There is no
16 specific address block location or barcode clear zone for flat mail, as there is for
17 letters. This, along with the requirement for flat mail to be inserted into
18 automation and mechanized equipment with the bound or folded edge in a
19 certain orientation, requires more facing and handling in order for it to be sorted.

20 Even though the Postal Service allows mail as thin as .009 inches and as
21 thick as .75 inches to receive a barcoded discount, given capacity limitations,
22 mail at these extremes is not always processed on flat mail automation
23 equipment. Such mail is more prone to causing jams and/or being damaged.

MPA-T-1

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OF
RITA D. COHEN
ON BEHALF OF
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ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
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NATIONAL NEWSPAPER ASSOCIATION
TIME WARNER INC.

1 Standard A even though the costs are attributed to Periodicals. Correcting this
2 inequity would yield additional revenues for Periodicals.

3 **C. Cost Avoidance for Rate Design**

4 As described in detail by witness Stralberg and PostCom witness Glick
5 (PostCom-T-1), the USPS flats cost model (USPS-LR-I-90) contains many
6 incorrect and inconsistent assumptions, including those regarding bundle
7 breakage, bundle and piece-sorting productivities, and optical character reader
8 accept rates. Therefore, witnesses Stralberg and Glick have developed an
9 improved version (MPA-LR-2) that better reflects the reality of postal operations.
10 I recommend that the Commission use mail processing cost avoidances from this
11 improved model when designing rates for the Outside-County subclass. This
12 model should be used to calculate automation and presort discounts.

13 **D. Passthroughs For Automation Rate Categories**

14 I recommend that the Commission maintain witness Taufique's greater-
15 than-100 percent passthroughs of automation-related cost avoidances in this
16 case. USPS-LR-I-167, OC1.xls, worksheet "Piece Discounts2". As discussed by
17 PostCom witnesses Lubenow and Glick, the Postal Service's cost avoidance
18 model (even as corrected by witnesses Stralberg and Glick) accounts for the
19 benefits of the higher address quality of automation flats only to the extent that
20 they affect reject rates. Therefore, the modeled automation cost avoidance
21 understates true cost avoidance. Furthermore, in the rapidly evolving flats
22 processing environment, it would be inappropriate to change pricing signals
23 suddenly due to a temporary drop in cost avoidance. As stated by witness
24 Taufique:

25 And especially in the area of bar code discounts, if you are
26 looking at those, there were three thoughts that I had.
27 When we give a signal to the mailing community, they
28 make substantial investments to follow through on our
29 signals, and if you change those signals overnight, that
30 can cause a problem for the business community.

31
32 Number 2, the overall rate increase was significantly
33 higher, as I have pointed out earlier, 12.7 percent

1 compared to all the other classes, a 100 percent discount,
2 100 percent passthroughs would have led to increases of
3 more than 20 percent for some rate cells, and these were
4 rate cells that had large volumes of mail in them.

5
6 And, Number 3, my thought was that at least my basic
7 understanding of how flats processing is evolving at the
8 Postal Service, it is not settled, things are changing, and it
9 is possible that bar codes in the future environment of
10 different types of machines and doing DPS (sic) at the
11 plant level will become more valuable.

12 Tr. 17/7037-38.

13 **E. 5-Digit Pallet Discount**

14 In its report, the Team noted that “[m]ailers can help [reduce USPS costs]
15 by . . . entering bundles, to the extent feasible, on pallets instead of in sacks.
16 Sacked mail, besides incurring high sack handling costs, sustains substantial
17 breakage during the sack sorting operations. Pallets with finer levels of presort
18 will also reduce the probability of breakage by reducing the number of bundle
19 sorts needed.” Team Report at 25. Towards the goals of reducing bundle
20 breakage and Postal Service container handling costs, I support witness
21 Stralberg's proposal for a two-cent discount for pieces presented on 5-digit
22 pallets that are drop shipped to DSCFs or DDUs. Such a discount will help
23 overcome the high cost barriers to the creation of 5-digit pallets and provide the
24 Postal Service with its preferred type of container.

25 **F. DDU Rate Design**

26 Witness Stralberg also identifies a mistake in the Postal Service's
27 calculations of the DDU cost avoidance for Periodicals mail. While USPS
28 procedures require that drivers unload mail that is drop shipped to delivery units,
29 witness Crum's model of Periodicals dropship cost savings (USPS-LR-I-175)
30 assumes that Postal Service employees unload the truck. As witness Stralberg
31 shows, correcting this mistake increases the DDU cost savings for the
32 Periodicals Regular subclass by 0.73 cents per piece. He estimates that this will
33 lead to an increase in the per-piece and per-pound discounts for DDU entry of
34 0.5 cents.

Attachment A.

Periodicals Regular Rate Increase for MPA Members

| Publication | Rate Increase (%) |
|--------------------|--------------------------|
| 1 | 14.9% |
| 2 | 15.5% |
| 3 | 15.7% |
| 4 | 15.5% |
| 5 | 15.5% |
| 6 | 16.3% |
| 7 | 15.8% |
| 8 | 16.3% |
| 9 | 14.9% |
| 10 | 13.9% |
| 11 | 15.6% |
| 12 | 15.7% |
| 13 | 15.9% |
| 14 | 15.1% |
| 15 | 16.0% |
| 16 | 15.4% |
| 17 | 15.5% |
| 18 | 15.6% |
| 19 | 15.9% |
| 20 | 16.1% |
| 21 | 15.8% |
| 22 | 15.3% |
| 23 | 14.5% |
| 24 | 15.0% |
| 25 | 15.2% |
| 26 | 14.8% |
| 27 | 14.6% |
| 28 | 14.9% |
| 29 | 15.1% |
| 30 | 14.7% |
| 31 | 15.0% |
| 32 | 15.3% |
| 33 | 15.2% |
| 34 | 15.3% |
| 35 | 14.6% |
| 36 | 14.7% |
| 37 | 14.9% |
| 38 | 15.1% |
| 39 | 14.9% |
| 40 | 15.2% |
| 41 | 15.1% |
| 42 | 15.0% |

| | |
|----|-------|
| 43 | 15.2% |
| 44 | 15.1% |
| 45 | 13.7% |
| 46 | 15.2% |
| 47 | 15.0% |
| 48 | 15.1% |
| 49 | 14.9% |
| 50 | 11.6% |
| 51 | 16.0% |
| 52 | 15.0% |
| 53 | 14.6% |
| 54 | 15.9% |
| 55 | 14.9% |
| 56 | 15.4% |
| 57 | 15.1% |
| 58 | 15.1% |
| 59 | 15.6% |
| 60 | 15.4% |
| 61 | 15.0% |
| 62 | 15.1% |
| 63 | 15.1% |
| 64 | 15.2% |
| 65 | 14.6% |
| 66 | 14.6% |
| 67 | 14.7% |
| 68 | 14.7% |
| 69 | 14.9% |
| 70 | 14.8% |
| 71 | 14.6% |
| 72 | 15.1% |
| 73 | 14.7% |
| 74 | 15.0% |
| 75 | 15.4% |
| 76 | 15.1% |
| 77 | 15.1% |
| 78 | 15.4% |
| 79 | 15.4% |
| 80 | 14.9% |
| 81 | 15.3% |
| 82 | 16.3% |
| 83 | 14.7% |
| 84 | 15.8% |
| 85 | 15.0% |
| 86 | 15.2% |
| 87 | 15.0% |
| 88 | 15.0% |
| 89 | 14.5% |
| 90 | 15.1% |

| | |
|------------------|--------------|
| 91 | 15.6% |
| 92 | 15.3% |
| 93 | 15.0% |
| 94 | 15.3% |
| 95 | 15.2% |
| 96 | 15.4% |
| 97 | 15.5% |
| 98 | 15.1% |
| 99 | 14.7% |
| 100 | 9.7% |
| 101 | 9.7% |
| 102 | 15.0% |
| 103 | 14.7% |
| 104 | 15.2% |
| 105 | 15.3% |
| 106 | 15.3% |
| 107 | 14.5% |
| 108 | 14.8% |
| 109 | 15.1% |
| 110 | 14.9% |
| 111 | 15.6% |
| 112 | 16.0% |
| 113 | 15.5% |
| 114 | 15.2% |
| 115 | 15.4% |
| 116 | 15.2% |
| 117 | 15.1% |
| 118 | 14.9% |
| 119 | 14.5% |
| 120 | 14.6% |
| 121 | 14.8% |
| 122 | 14.6% |
| 123 | 15.7% |
| 124 | 14.7% |
| 125 | 14.8% |
| 126 | 15.0% |
| 127 | 14.5% |
| MPA Total | 14.9% |

Why Rates are Increasing

Postal costs, like those of any other business or household, go up. The Postal Service receives no tax dollars for operations, and relies solely on the sale of its products and services to cover its operating costs.

In general, rate increases for each subclass reflect overall cost trends for that subclass. As a result of the success of the letter automation program, increases for letter-shaped items, particularly First-Class Mail, are generally smaller. Modest increases are proposed for Express Mail and Parcel Post, reflecting the cost trends in those categories. At the same time, costs have increased more rapidly for flat-shaped items such as Periodicals, Standard Mail catalogs, and Bound Printed Matter. Also, Priority Mail costs have increased as the Postal Service has worked to improve service. The proposal calls for larger-than-average increases for those categories.

We've asked for a 1-cent increase in the price paid to send a 1-ounce First-Class Mail letter from 33 to 34 cents.

The 1-cent increase in the basic price of First-Class Mail postage reflects a rate that has increased less than the projected U.S. rate of inflation over the same period.

This request matches the lowest increase in postal history for the basic First-Class Mail rate. Adjusted for inflation, the proposed price of a First-Class Mail stamp would be lower than it was in 1971.

Rates will not increase before 2001.



M800 All Automation Mail

M810 Letter-Size Mail

1.0 BASIC STANDARDS

Standards
1.1 Letter-size automation rate First-Class Mail, Periodicals, and Standard Mail (A) must be prepared under M810 and the eligibility standards for the rate claimed. *Package and tray preparation are subject to M010, M020, and M030. Trays must bear barcoded tray labels under M032.*

Mailings
1.2 The requirements for mailings are as follows:

- a. *General.* All pieces in a mailing must meet the standards in C810 and must be sorted together to the finest extent required for the rate claimed. The definitions of a mailing and permissible combinations are in M011.
- b. *First-Class.* A single automation rate First-Class mailing may include pieces prepared at carrier route, 5-digit, 3-digit, and basic automation rates.
- c. *Periodicals.* A single automation rate Periodicals mailing may include pieces prepared at 5-digit, 3-digit, and basic automation rates.
- d. *Standard Mail (A).* Pieces prepared to qualify for carrier route automation rates must be prepared as a separate mailing (meet a separate minimum volume requirement) from pieces prepared to qualify for 5-digit, 3-digit, and basic automation rates.

Documentation
1.3 [01-03-00] A complete, signed postage statement, using the correct USPS form or an approved facsimile, must accompany each mailing and must be supported by documentation produced by PAVE-certified (or, except for Periodicals, MAC-certified) software or by standardized documentation under P012. Mailers may use a single postage statement and a single documentation report for all rate levels in a single mailing. *Standard Mail (A) mailers may use a single postage statement and a single documentation report for both an automation carrier route mailing and a mailing containing pieces prepared at 5-digit, 3-digit, and basic automation rates as applicable, submitted for entry at the same time.* Documentation of postage is not required if the correct rate is affixed to each piece or if each piece is of identical weight and the pieces are separated by rate when presented for acceptance. Combined mailings of Periodicals publications also must also be documented under M200. First-Class and Standard Mail (A) mailings prepared under the value added refund procedures or as combined mailings of different postage payment methods or different rates of postage affixed must meet additional standardized documentation requirements under P014 and P760.

Marking
1.4 Except for Periodicals (which require no markings), all automation rate pieces must be marked under M012. Pieces claimed at an automation rate must bear the appropriate class marking and, except as provided in M012, "AUTO" (or "AUTOOCR" for carrier route rate). *Pieces not claimed at an automation rate must not bear "AUTO" or "AUTOOCR" unless single-piece rate postage is affixed or a corrective single-piece rate marking is applied under P100 or P600.*

General Preparation
1.5 Grouping, packaging, and labeling are not generally required or permitted, *except packaging is required in any mailing consisting entirely of card-size pieces and for pieces in overflow, less-than-full, and 3-digit carrier routes trays; pieces must be*

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Edward J. Gleiman, Chairman;
George A. Omas, Vice Chairman;
Dana B. Covington; Ruth Y. Goldway;
and W.H. "Trey" LeBlanc III

Postal Rate and Fee Changes

Docket No. R2000-1

ORDER REQUESTING THE
SUBMISSION OF EVIDENCE ON
PERIODICALS PROCESSING COSTS

(Issued March 28, 2000)

On March 17, 2000, the Postal Service provided its response to Presiding Officer's Information Request No. 4. Based on this material, the Commission has developed the graphs in Attachment A to present trends.

Two trends in particular stand out, one of which warrants further study. The inflation-adjusted costs of processing letters are steadily declining, which has alleviated the pressure for rate increases. The other pronounced trend is the increase in the inflation-adjusted costs of processing Periodicals since 1993. This is a negative trend that should be analyzed so that if possible, rates and classifications can be designed that will assist the Service in changing it.

Accordingly, the Commission requests that Postal Service present detailed evidence explaining the causes of the trend in the costs of processing Periodicals from a witness qualified to respond to participants' questions on the topic, see for example,

interrogatories MH/USPS-T-21-1, 2. A witness with high-level managerial responsibility over flat handling operations would appear to be best suited to this need.

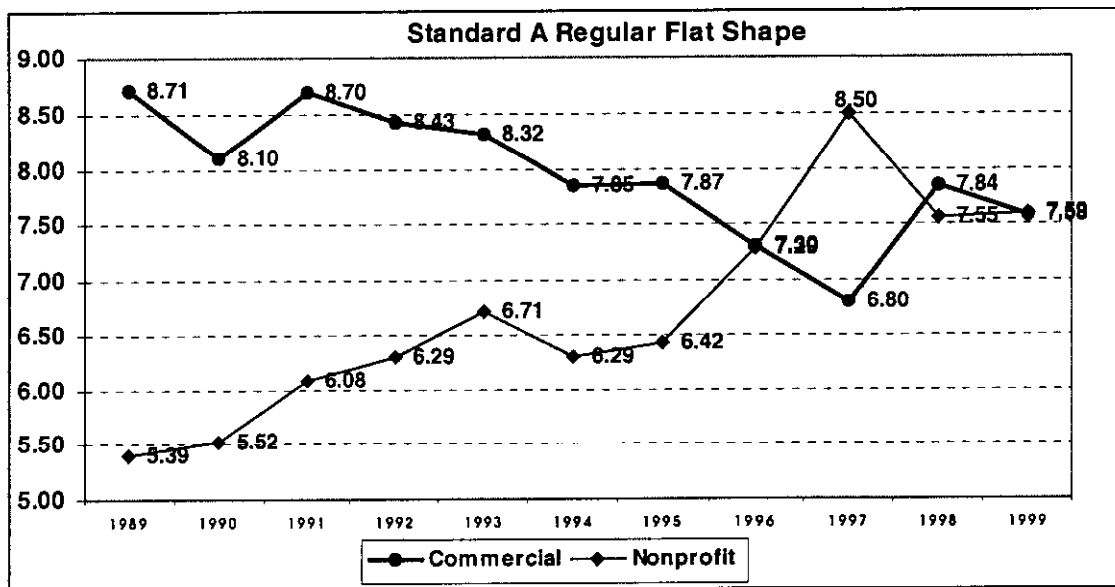
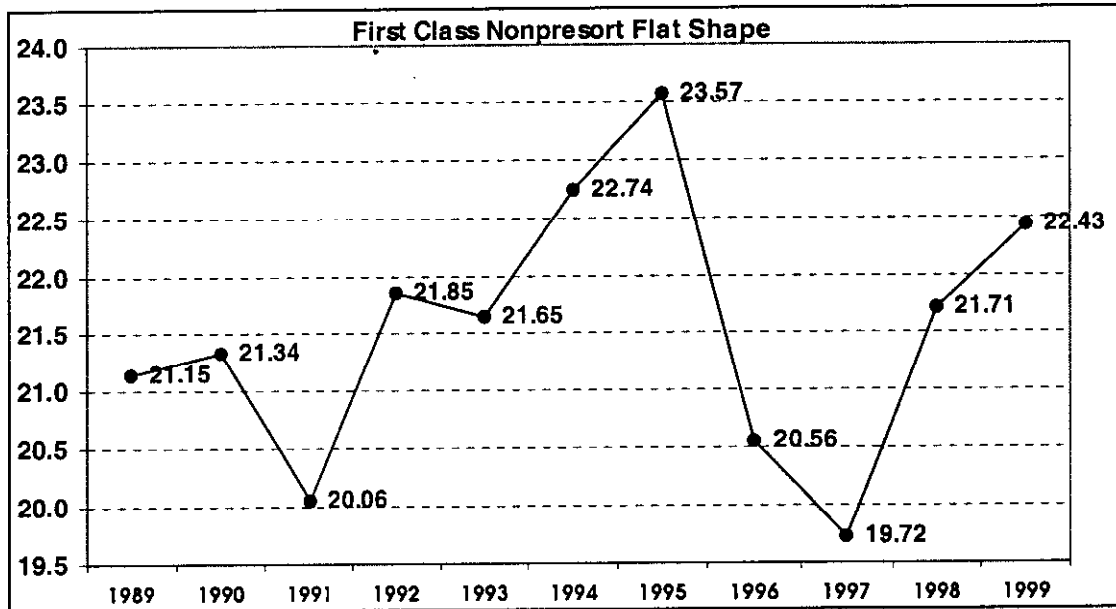
The record would also benefit from an explanation of one other matter. Two other subclasses with large volumes of flat mail, First-Class and Standard A regular, as well as Periodicals, exhibited a sharp increase in unit flats processing costs in FY98, the base year in this proceeding. An explanation for this should be provided.

It is ordered:

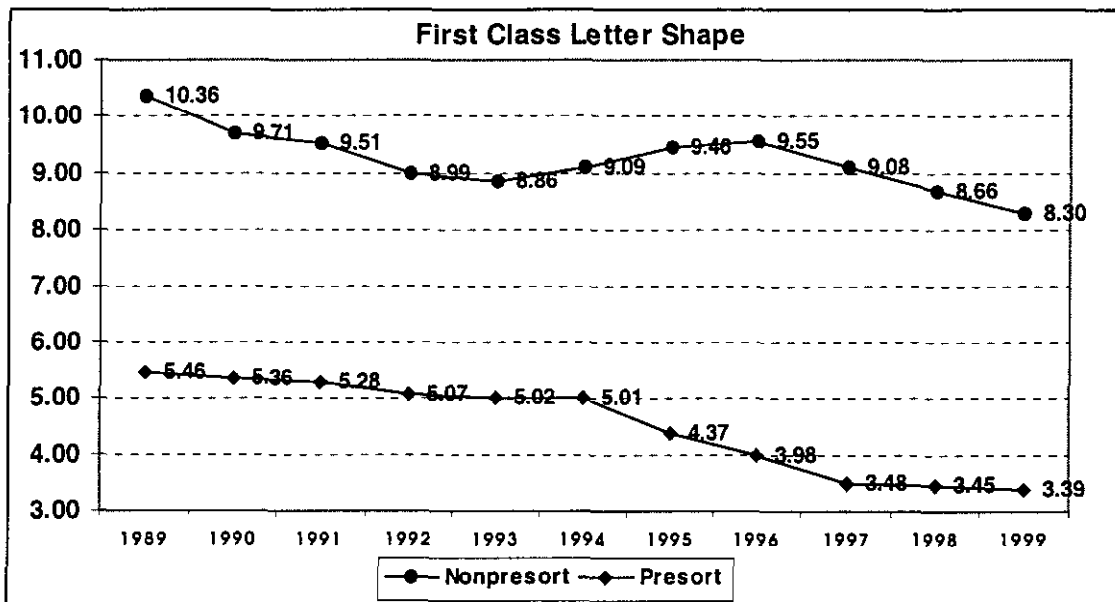
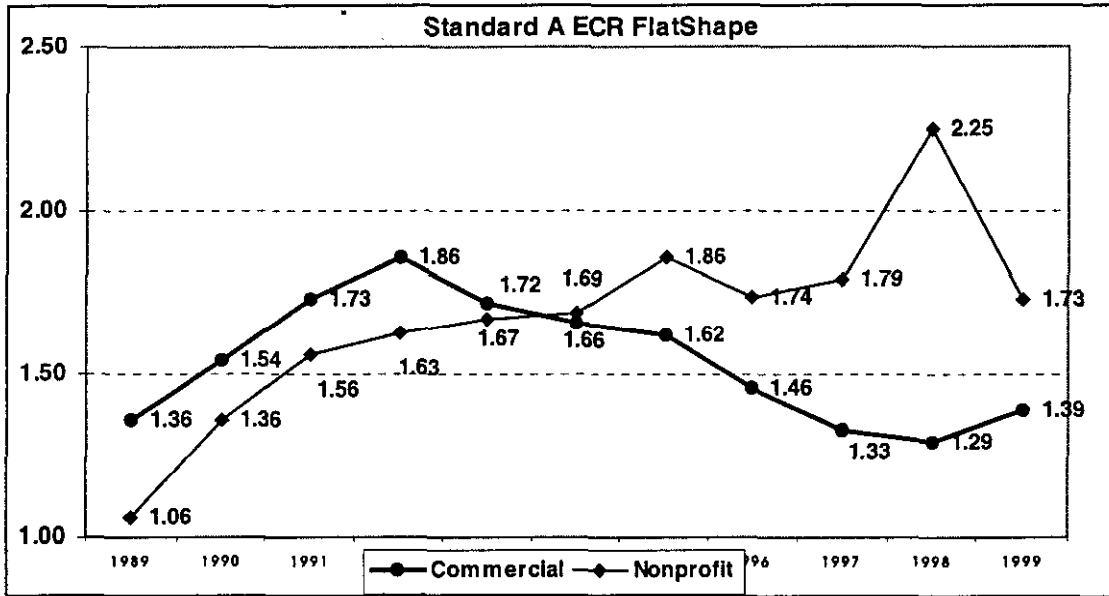
1. The Postal Service is to provide evidence explaining the increasing cost of processing Periodicals and flats on or before April 14, 2000. Discovery on this testimony will be allowed through April 26, 2000.

Margaret P. Crenshaw
Secretary

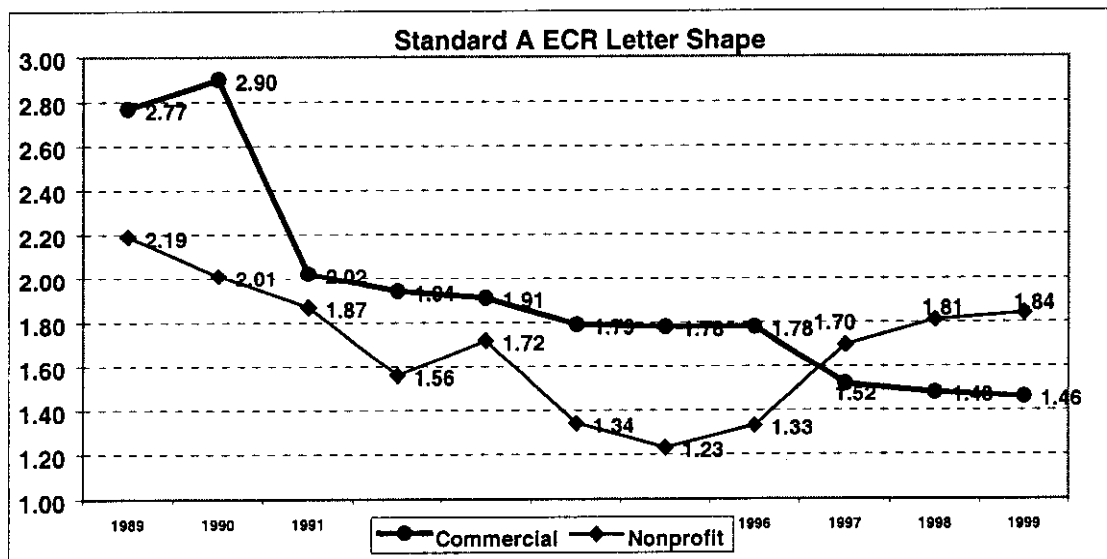
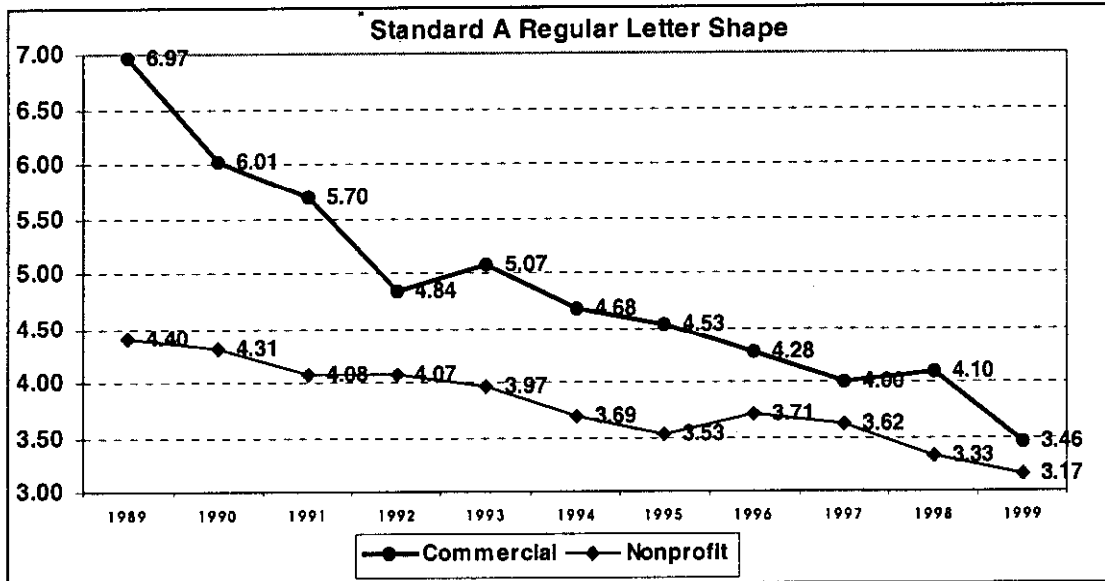
Mail Processing Plus City Carrier In-Office Unit Costs
Cents per Piece, Wage Level Adjusted to FY 1989



**Mail Processing Plus City Carrier In-Office Unit Costs
Cents per Piece, Wage Level Adjusted to FY 1989**



**Mail Processing Plus City Carrier In-Office Unit Costs
Cents per Piece, Wage Level Adjusted to FY 1989**



Mail Processing Plus City Carrier In-Office Unit Costs
Cents per Piece, Wage Level Adjusted to FY 1989

