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U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

OFFICE OF THE SECRETARY
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Docket No. R2001-1

POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2001

SURREBUTTAL TESTIMONY OF
JAY GILLOTTE
ON BEHALF OF
NATIONAL ASSOCIATION OF PRESORT MAILERS

February 20, 2002

1 1. Statement of Experience and Qualifications.

2 I am Jay Gillotte, and I am the First Vice President of the National Association of Presort
3 Mailers ("NAPM"). I have served as a Director of the Association since 1997. My experience in
4 mail processing dates back to 1981 when I went to work for Technisort, Incorporated. In 1982 I
5 founded Presort Services, the oldest and the first fully automated presort mailing company in
6 Michigan which now operates in both Lansing and Grand Rapids, Michigan with a combined
7 daily volume of approximately 500,000 pieces. I have been a member of the MERLIN
8 Technical Advisory Committee since its creation. I am a member of both the Lansing and Grand
9 Rapids Postal Customer Councils (PCCs) I currently serve as the Industry Vice Co-chair of the
10 Lansing PCC and have in the past served as the Industry Co-chair of both the Lansing and
11 Grand Rapids PCCs.. I am also a member of the Mail and Fulfillment Services Association and
12 a member of its Postal Affairs Committee.
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16 2. Purpose.

17 The purpose of this testimony is to support the settlement proposal either agreed upon, or
18 in the case of a few at least not opposed, by every party except the APWU, and to respond, from
19 the perspective of a presort bureau, to several issues raised by APWU witness, Michael J Riley,
20 in the testimony he has submitted in this case.
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22 First, I will discuss the failure of the cost avoidance measures used by Mr. Riley to reflect
23 substantial cost savings provided by presort mailers. These avoided costs include: capital costs
24 of handling extraordinary volumes of workshare mail if it were to revert to the USPS; providing
25 the supplies needed to process 45 billion pieces of FCLM; mailer education; deliveries of mail
26 transportation equipment ("MTE") to mailers who pick up or receive MTE from presort mailing
27 companies rather than the USPS; costs for the USPS truck fleet needed to pick-up and deliver
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1 mail currently delivered by presort mailing companies to the USPS at P&DCs or, at least, major
2 postal facilities other than local associate post offices; and UAA costs avoided as a result of the
3 Move Update requirements applicable to worksharing FCLM.

4 Second, I will discuss the MERLIN issue raised by Mr. Riley.

5 Third, I will discuss the overall value of the worksharing program to the USPS.

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7 3. Unrecognized Cost Savings of Worksharing FCLM.

8 Because of the methodology employed by the USPS and Mr. Riley in this case to
9 measure the costs avoided by worksharing, I believe it important to remind the Commission that
10 presort bureaus and other worksharing mailers perform many functions which significantly
11 reduce costs incurred by the USPS that are not included by the USPS's estimate (relied upon by
12 Mr. Riley) of the avoided costs.

13 (a) Capital Costs and Reversion. Since the advent of automation, the presort industry has
14 made a very substantial investment in capital equipment, systems and workspace needed to
15 process workshared mail. This investment has permitted the USPS to correspondingly reduce its
16 investment in the equipment, systems, and workspace, it would otherwise have to have to
17 process the 45 billion pieces of workshared FCLM now processed each year by worksharing
18 mailers.

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20 Based on my knowledge of the presort industry, I estimate that private-sector, work
21 sharing mailers currently own or lease approximately 5 million square feet of workspace used to
22 process automation mail. This is space the USPS does not currently have, but would have to
23 have to process the 45 billion pieces of workshared mail presented to it annually. If one assumes
24 that the annual rental value of this space is at least \$10 per sq. foot, this is a capital cost of more
25 than \$50 million per year not borne by USPS.
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1 We can also determine from the USPS lists of CASS/MASS Certified MLOCRs that
2 there are approximately 1000 MASS certified MLOCRs in the private sector. If we assume that
3 the average MLOCR costs \$250,000, this represents an avoided capital expense of \$250 million.

4 It seems highly likely that worksharing FCLM mailers have procured their plant space in
5 a less costly manner than could have the USPS. Furthermore, the sheer size of the amount of
6 physical plant and equipment devoted by mailers to the USPS worksharing program makes it
7 appropriate for the Commission to consider the positive value of this contribution in determining
8 whether to adopt a conservative or more expansive measure of cost avoidance of worksharing
9 FCLM. In particular, as it has in the past, the Commission should consider the total inability of
10 the USPS to handle worksharing FCLM if it were to revert from worksharing mailers to the
11 USPS, as a reason to adopt a less conservative and more expansive measurement of worksharing
12 FCLM cost avoidance, and to therefore establish larger incentives for worksharing FCLM.

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15 (b) Avoided maintenance costs. In addition to the avoided capital costs, the USPS is also
16 avoiding substantial costs related to the operation and maintenance of the equipment needed to
17 process automated workshared mail.

18 (c) Avoided supply costs. USPS is also avoiding the substantial annual cost of the
19 supplies needed to process workshared mail. For example, presorted mail must be presented in
20 trays that are sleeved, strapped, and labeled. Thus, in addition to the equipment necessary to
21 sleeve, strap, tray and prepare labels for the approximately 8.5 million trays of mail in which the
22 45 billion pieces of FCLM are delivered to the USPS each year, the USPS is avoiding the cost of
23 the strapping and tray lables, yet these savings are not included in the USPS's computation of
24 the FCLM workshare costs avoided relied upon by Mr. Riley. If one doubts the cost of such
25 equipment and supplies one has only to walk through the exhibit hall at a National Postal Forum
26 to see booths of literally dozens of manufacturers of this equipment and vendors of these
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1 supplies. These cost savings should be estimated and included in the discounts for presorted
2 mail.

3 (d) Automation Compatible Mail Costs. The USPS has effectively transferred to the
4 presort industry front-line responsibility for ensuring that 45 billion pieces of mail (nearly a
5 quarter of all mail processed by the USPS) are automation compatible. In fact, the very concept
6 of "automation compatible mail" and the related concepts of "upgradeable" and "non-
7 upgradeable" mail reflect the fact that not all mail processed by presort bureaus is in fact BMM.
8 Without the incentives provided for workshared mail, there would be no reason for mailers to
9 submit mail in a form that would permit it to be automated. The fact that a few large mailers did
10 some presorting prior to the time worksharing discounts were available (and at a time when
11 there were no workshare requirements which could result in rejection of non-qualifying mail),
12 does not mean that those mailers, much less other mailers, would do the work required today
13 without an appropriate incentive. Using the willingness of some large mailers to assist the USPS
14 to find a way to reduce postage costs for half of the Postal Service's most important mail stream
15 against those mailers, as Mr. Riley would have this Commission do, is truly outrageous. It
16 amounts to telling them that they have done so much for the USPS and other mailers for so long
17 that they should now be required to continue doing it forever for nothing.

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20 What the Commission needs to understand is that the avoided costs measured by the
21 USPS as reflected in the testimony of Michael Miller, which Mr. Riely relies upon, reflect no
22 measured cost saving from providing mail that is in fact automatable. Instead the USPS asks this
23 Commission to indulge in the fantasy that all or the vast majority of the mail processed by
24 worksharing mailers of FCLM would arrive at the USPS fully automatable without any
25 incentive. The amount of time and effort presort bureaus expend working with customers to
26 ensure that the mail they receive is automation compatible belies this convenient but
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1 undocumented and unproven assumption. For example, full rate First Class mail does not have
2 to protect the barcode clear zone. Without the barcode clear zone, the USPS would have
3 difficulty barcoding such mail received by it on MLOCRs. Full rate mail does not need to be
4 faced. It can be and is regularly inserted in trays and other packaging in various orientations.
5 Nor does anyone have to check to see if the proper postage has been applied and the proper date
6 included in metered mail.
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8 This transfer of primary responsibility for the production of automation compatible mail
9 to the presort industry should have reduced the number of USPS Customer Service
10 Representatives and Mail Design Analysts, needed by the USPS. While I don't know how many
11 USPS Customer Service Representatives and Mail Design Analysts have been or could have
12 been eliminated, I do know that the sales representatives of presort mailers as well as mail
13 processing personnel expend a considerable amount of time and effort working with customers
14 to avoid or resolve problems with their mail. Put another way, BMM does not have to have a
15 number of requirements imposed on mail that qualifies for the worksharing automation
16 discounts, but neither the cost of meeting these requirements nor the cost of adequately educating
17 mailers about these requirements is reflected in the calculation of the costs avoided by the
18 USPS. Windowed mail provides yet another example. BMM mail does not have to pass a tap
19 test conducted to ensure that address blocks in window envelopes remain within the window and
20 readable. Nor does it matter if BMM sticks together as result of too much water being applied
21 when the letter was sealed and the glue ran. Without automation workshare mailers to explain
22 the requirements and ensure they are complied with, USPS would have to have its own
23 Customer Service Representatives and Mail Design Analysts out begging mailers to provide,
24 out of the goodness of their hearts, mail pieces the USPS must automate. It would also have to
25 have people to check the mail for flaws of the sort noted above.
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1 (e) Distribution of Mail Transportation Equipment ("MTE"). In the case of Mail
2 Transportation Equipment, USPS witness Miller has suggested in his Direct Testimony that his
3 cost avoidance measurement may have been understated to the extent that BMM mail is in fact
4 presented to the USPS in trays. This begs the question, " Why would BMM be presented to the
5 Postal Service by mailers (as opposed to by other Postal Service locations) in trays? Mailers
6 paying the full single piece first class rates are not required to enter mail in trays. Fullpaid
7 FCLM can be entered in any form. However, this unproven assumption presents another
8 unrecognized saving realized by the USPS as a result of workshared mail. If BMM mail were
9 entered in trays, how would BMM mailers have gotten the trays? The answer is simple, the
10 USPS would have to give them the trays. But how would it do that? To make a fair comparison
11 between workshared FCLM and BMM, the Postal Service would have to include the cost of
12 providing trays as well as other MTE such as APCs to BMM mailers.

15 Many presort bureaus receive mail from their customers in trays, of course, but those
16 trays came to the mailer through presort bureaus. If it were not for presort bureaus, the Postal
17 Service would either have to deliver the trays to BMM mailers or it would have to ask them to
18 pick-up trays from the Post Office assuming they would take their mail to the Post Office rather
19 than simply leave it on the dock or at a mail room in their office building or crammed in a letter
20 box. Picking-up empty trays at a Post Office while dropping off BMM sounds easier than it
21 would be in practice, of course.

23 (f) Reduction in Peak Work Time Activities. Based on my knowledge of the industry, I
24 estimate that the average presort bureau has about 100 customers. That means that the windows
25 or the back docks of most post offices would be a lot busier than they are now toward the end of
26 the normal work day (when most mail is delivered to Post Offices) by business mailers, if the
27 20,000 mailers who use presort bureaus were trying to get to the window or the loading dock at
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1 the end of the business day to not only deliver mail, but to pick-up MTE. The point is, the USPS
2 would find it difficult at best to distribute empty trays during the peak hours for mail delivery to
3 Post Offices. The frustration might well result in BMM mailers delivering mail in miscellaneous
4 paste-board boxes or even grocery bags.

5 Since BMM mail receives no discount, there is no reason for BMM mailers not to deliver
6 all of their mail to the USPS at the close of the regular business day, when the USPS is already
7 busy trying to collect and process the collection-box letter mail on which its performance is
8 measured and on which management bonuses depend, at least in part. Presort mailers generally
9 want to deliver their mail as late in the day or evening as possible thus avoiding the hours of
10 peak mail pick-up and processing by the USPS. Moreover, the mail the presorters enter into the
11 mail stream is deposited at P&DCs or major postal facilities, not at Associate Offices and even
12 letter boxes. .

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14 Since all but a very small portion of the mail presented by presort bureaus is sorted to at
15 least the AADC level, as well as sleeved, banded and labeled, all the entry facility normally
16 needs to do with the portion of the automated FCLM it receives that is not addressed for delivery
17 within its own service area is cross dock this mail onto transportation to the next appropriate
18 facility. Local mail, mail that will be delivered in the service area of the entry P&DC, is simply
19 held for a secondary incoming or delivery sequence sortation which will not occur until the early
20 hours of the next day at the earliest.

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22 In short, if the USPS had tried to distribue MTE for BMM it would add an additional
23 work load to an already very busy time period. The enlarged peak load would require the USPS
24 to build and staff much larger facilities which could accommodate the delivery of large volumes
25 of BMM in the late afternoon and early evening along with the pick up of large amounts of
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1 MTE. Yet the avoidance of these costs is not recognized in the discounts sought by the USPS
2 for workshared mail in this case.

3 (g) Reduced Truck Fleet. The foregoing discussion points out another savings
4 provided by workshared mail that is not reflected in the avoided cost calculations of USPS
5 witness Miller upon which Mr. Riley relies, the savings represented by the pick up and delivery
6 or, at the least, consolidation of the pick-up and delivery of vast quantities of mail. At present,
7 most presort bureaus pick up mail from their customers. Much, if not most, of this mail is mail
8 the Postal Service would have to pick-up if it were not picked-up by presort bureaus. Many
9 presort bureaus also deliver some or all of the mail they process to the USPS. These mail pick-
10 ups and deliveries should have allowed the Postal Service to actually reduce the number of
11 trucks in its fleet and reduce and shorten pick-up runs they would otherwise have to make to the
12 presort mailer customers. We know, on an anecdotal level, from conversations with local postal
13 officials that this is true, but the USPS has never performed the studies necessary to quantify
14 these substantial savings.
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17 (h) Savings from Reduced UAA Mail. The rates requested by the USPS in this case fail
18 to include substantial reductions in the avoided cost of forwarding undeliverable-as-addressed
19 ("UAA") mail, due to compliance by worksharing FCLM with Move Update requirements.
20 Mailers have incurred and are incurring substantial expenses in order to comply with the Move
21 Update requirements, made applicable to worksharing FCLM in July 1997. It is frustrating to
22 see the USPS continue to avoid making any effort to quantify the obvious benefit the USPS
23 derives from these Move Updated requirements, while at the same time reaping the mail
24 forwarding cost savings from these requirements.
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1 In my company, in order to comply with move update requirements, we have
2 implemented FASTforward® on all of our MLOCRs. Use of FASTforward should avoid most
3 all mail forwarding costs to the USPS for that worksharing FCLM processed with FASTforward.

4 Based upon my conversations with other presort bureaus and equipment manufacturers, it
5 is my conservative estimate that at least 50 % of worksharing FCLM mail is processed
6 FASTforward and will, therefore, avoid most all forwarding costs. In addition to the
7 worksharing FCLM mail which is processed with FASTforward and therefore free of most all
8 forwarding costs, all other worksharing FCLM is processed using one of the other three
9 approved methods for meeting the Move Update requirements. The point is, workshered FCLM
10 must comply with Move Update and, by their doing so should reduce USPS mail forwarding
11 costs substantially, but the discounts requested do not reflect any such savings.

13 4. MERLIN

14 In his testimony, Mr. Riley suggests that MERLIN has demonstrated that a lot of
15 worksharing mail is not entitled to the discounts provided for workshered mail and argues that
16 because of this discounts should be reduced. This argument is misguided for a number of
17 reasons. I will address only a few of them.

18 First, as I noted, I have been a member of the MERLIN Technical Advisory Group since
19 its creation. The minutes of the August 2, 2001 MERLIN TAG do not support the conclusion
20 urged by Mr. Riley. Following that August 2, 2001 meeting the USPS recognized that MERLIN
21 had been programmed to "fail" mail that can be and is processed everyday on the Postal Service's
22 automation equipment and has reprogrammed MERLIN several times since then. Presort
23 mailers continue to have a number of problems with MERLIN. Those problems have now been
24 referred to a MTAC Working Group for further exploration and, we hope, further remediation.
25 What Mr. Riley failed to include in his testimony is that according to Tom Day, USPS Vice
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1 President for Engineering, the USPS 's automation equipment currently reads and processes more
2 than 98% of the barcodes applied by worksharing mailers.

3 Second, the Commission needs to understand that the discounts are based upon
4 worksharing mailers doing what the USPS would otherwise have to do itself. Mr. Riley would
5 have this Commission believe that USPS applied barcodes are perfect while those applied by
6 worksharing mailers are deficient. The truth is quite the opposite. The good barcodes are the
7 ones supplied by worksharing mailers. Since some of the equipment I use to barcode FCLM mail
8 is the same as the equipment used by the USPS to barcode FCLM I know that my equipment can
9 produce barcodes as good as those applied by the USPS. I also know that all of my equipment
10 that prints barcodes prints barcodes of essentially the same quality. Finally, I am aware that
11 because of superior maintenance and greater employee accountability which are necessary to
12 avoid postage adjustments, that the barcodes my company and other presort bureaus apply are, in
13 fact, superior to the barcodes applied by the USPS. At an MTAC meeting last summer Mr. Day
14 was asked why the USPS is not testing, and does not propose to test, its mail on MERLIN. (It
15 has never tested its own barcodes on ABE--the Automated Barcode Evaluator). He responded
16 by noting the USPS doesn't need to test its barcodes because it immediately processes the mail it
17 barcodes on its automation equipment and therefore knows if the barcodes are bad. While Mr.
18 Day is not entirely correct about when and how quickly the USPS re-runs USPS bar-coded mail,
19 this argument totally undercuts Mr. Riley's position. In order to sort their mail, presort bureaus
20 have their MLOCR's immediately read the barcode applied to each piece . Moreover, most
21 presort bureaus second pass most of their mail. If their automated mail-processing equipment
22 could not read the barcodes that they had applied to that mail, they could not second pass it. In
23 short, presort bureaus do exactly what the USPS does. If this is sufficient for the USPS, why
24 isn't it sufficient to demonstrate the accuracy of industry applied barcodes? But what is sauce
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1 for the goose is not sauce for the gander and presort bureaus are expected to meet an artificial
2 standard far in excess of what is needed by the USPS to process their mail.

3 Since worksharing discounts are calculated on the assumption that worksharing mailers
4 do what the USPS would have to do if workshare mailers had not done it and since USPS applied
5 barcodes are not perfect, workshared mail need not be perfect to earn the discounts. Indeed, to
6 the extent that the mail provided by worksharing mailers is superior to the mail produced by the
7 USPS, the USPS is realizing another windfall not included in the calculation of the discounts by
8 the USPS that are relied upon by Mr. Riley.

10 Finally, on this point, Mr. Riley's MERLIN argument undercuts his own testimony for
11 yet another reason. To the extent that mail fails MERLIN, it will not earn an automation
12 discount! Thus, MERLIN, not Mr. Riley's proposed rates, solves the very problem Mr. Riley
13 believes warrants a reduction in the discounts. The discounts for mail that fails MERLIN will
14 decline alright; they will disappear entirely. Whether that is a fair result is a very interesting
15 question. What would the Postal Inspection Service say if a presort bureau used a device to test
16 one or more qualities of its customers' mail, and based on the results of tests it performed on its
17 customers' mail, the bureau told its customers that their mail could not be bar-coded and would
18 have to be entered at the full rate, but having collected the full rate from the customers, the
19 bureau then processed that customers' mail on its automation equipment and entered it at
20 discounted rates? What should we call this when the USPS does it?

23 In closing, let me say a word or two about the value of worksharing. The problems noted
24 by the USPS in testimony in R2000-1 and in subsequent statements by USPS officials speak
25 more eloquently than I ever could to the value of worksharing. In its testimony in R2000-1,
26 when asked to explain the extraordinary increases in periodicals and Standard Mail flats, the
27 USPS responded that the problem is that they have not been as successful in automating flats as
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1 they have been in automating letter mail. Nevertheless, in this case, some of the most highly
2 automated mail has received higher percentage rate increases than less automated rate categories.
3 The settlement rates we are asking you to approve have been modified slightly from those
4 originally requested by the USPS in this case in an effort to reduce the disproportionate increase
5 the rates originally requested for 3-digit and 5-digit workshared FCLM would have experienced
6 had those rates been implemented. The increases in the discounts for 3-digit and 5-digit
7 workshared FCLM incorporated into the settlement merely reduce the disproportionate increases
8 the rates originally requested would have imposed. The point being that the very mail that has
9 made possible the very substantial savings produced by automation will still experience rate
10 increases above the system wide average even if the increases in the discounts incorporated into
11 the settlement are implemented.
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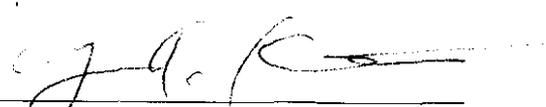
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14 With Regard To automated FCLM, Mr. Riley has actually suggested that the savings are
15 declining. I believe that the testimony of Dr. James Clifton and Richard Bentley in this case will
16 refute that assertion. It appears to us that the savings from presort and from automation mail are
17 still growing and that is without considering all of the to date unrecognized savings I have noted
18 in my testimony.

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20 What is disturbing to other presorters and me is the failure of Mr. Riley to recognize a
21 good thing when he sees it and work with it. Instead of encouraging more worksharing Mr.
22 Riley would have this Commission pull back and punish those who have done the most to
23 increase the efficiency and lower the cost of mail. We trust that this Commission will not adopt
24 that approach.
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CERTIFICATE OF SERVICE

I hereby certify that I have this 20th day of February 2002, served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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