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

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE TO ORAL REQUEST
OF CHAIRMAN OMAS AT TR. 2/342

The United States Postal Service hereby provides its response to the request

made by Chairman Omas at hearings on December 3, 2002. Tr. 2/. The attached

information also responds to the Chairman's request made on December 4, 2002 for an

explanation of the source data of the mail processing cost for return-to-sender mail. Tr.

3/634

The question is summarized and is followed by the response.

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Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 9, 2002

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OF CHAIRMAN OMAS AT TR. 2/342

REQUEST: At this point in the transcript, Chairman Omas asked Postal Service counsel if a response could be prepared to APWU's counsel's question about comparing the cost components of mail that is forwarded to mail that is returned to sender as presented in witness Crum's testimony and USPS/LR-J-69. The response was also to include the operational explanation of the cost components of forwarding and return costs. Tr. 2/342.

RESPONSE:

Attached is a spreadsheet comparing the major cost items identical to both forwarded and returned pieces. The data is taken directly from USPS/LR-J-69, but has been adjusted to match the information in witness Crum's LR-1 which excludes Postage Due and Accountable mail. Most simply, the 23 cent cost difference between forwarding and returns is comprised of the additional mail stream processing, clerk handling, and carrier preparation costs of returns, offset partially by the higher CFS processing costs for forwards.

Regarding the mail stream processing, another issue was raised during the hearings questioning the source of that data in USPS/LR-J-69 and witness Crum's testimony. Tr. 3/633-634. The footnote in Table 5.2.4.1 of USPS/LR-J-69 lists the source of the costs as FY 98 IOCS (In-Office Cost System) tallies. This led to a question regarding the processing that existed in 1998. However, the footnote is incorrect. The source of the cost data is FY 2000 IOCS tallies and the unit cost numbers come directly from those dollar-weighted tallies divided by the volumes in FY 2000. This means that the referenced return costs as presented in USPS/LR-J-69 and witness Crum's testimony are based on the operational reality as it existed during fiscal year 2000 and, therefore, reflect the mix of manual and automation processing of UAA mail. Witness Wilson described the types of manual and automated processing that existed in 2000. See Tr. 3/605-607.

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The detailed operational explanation of return and forwarding costs follows:

<u>Forwarding</u>

The process begins when a customer submits a COA (change of address) form to the Postal Service through the mail, in person, or through the Internet. The new COA form is sent to the carrier at the facility that serves the old address. After recording this information, the carrier sends the COA form onto the CFS (Computerized Forwarding System) site serving that delivery unit. The CFS clerk engages in activities such as validating the old and new address against the AMS (Address Management System) directory and submitting an update to the NCOA (National Change of Address) database. After this, the COA card is returned to the delivery unit where it remains as long as necessary before destruction.

Generally UAA mail (forwards and returns) makes it all the way to the carrier responsible for delivery to the address on the mail piece before being determined to be UAA. While sorting mail into a delivery case, the carrier sets aside mail pieces that are not to be delivered. While on the route, the carrier may find additional pieces as he/she attempts to deliver mail from pre-sequenced bundles such as those from DPS (delivery point sequencing). Regardless of the means of catching the UAA piece, the carrier deposits it at a designated location (throwback case) within the delivery unit for further processing. Mail for which there is a valid forwarding order is usually sent to the CFS unit serving that address. A clerk consolidates the various pieces to be forwarded and prepares them for delivery to the CFS site.

The primary responsibility of the CFS unit is to handle forwarded mail. For each piece of UAA mail that has been sent to the CFS unit by a letter carrier, the terminal

operator keys data from the address, class, and endorsement on the mail piece. The

terminal operator interacts with the COA database, retrieves the new address, and

generates a yellow forwarding label. The letters version of this terminal automatically

applies the label to the mail piece. The flats and parcels version of the terminal

presents the adhesive label in a window. The CFS unit sends the pieces with yellow

forwarding labels to the nearest P&DC (Processing and Distribution Center). Mail

carrying yellow forwarding labels can often be processed on the Postal Service's

sortation equipment as the labels can contain POSTNET barcodes and machine-

readable text. An additional activity adding costs to the system is "chain forwards".

Some customers move frequently creating a continuing series of yellow forwarding

labels that are themselves caught by downstream carriers and sent back to CFS sites to

receive new forwarding labels. Chain forwards add many additional processing steps.

<u>Returns</u>

As discussed above, mail to be processed as returned to sender is generally

caught by the carrier either in the office or while delivering on the route. Return-to-

sender pieces are handled at the delivery unit. Delivery unit employees separate the

mail by one of 22 reasons for nondelivery and may bundle and endorse the pieces.

Once the pieces are identified and endorsed, they need to be "marked up" by the

method used in that area. Usually either a label or a hand stamp is used to apply the

"Return to Sender" mark along with a reason, or a list of reasons. Delivery units then

send their consolidated return-to-sender pieces to the P&DC that handles their mail. If it

has not already been applied, "Return to Sender" and one of many possible

endorsements (such as no such number, no such street, attempted – not known,

insufficient address, etc.) are placed on the face of the mail piece. This can be done either manually or it may be applied during automated processing on the AFCS (Advanced Facer/Canceler System) or DBCS/OSS (Delivery Bar Code Sorter – Output Subsystem). The return-to-sender mail is often then run through a LMLM (Letter Mail Labeling Machine) which puts a blank label over any postal barcode that may be present.

It can be difficult to process return-to-sender mail via automation for many reasons. For example, the return of address may be on the back of the piece or various graphics or types of mail piece design make application of a new address barcode very difficult. Also, when the POSTNET barcode for the original delivery address is contained in the address block, the Postal Service cannot use the LMLM to cover the POSTNET. In that case, the Postal Service may use a grease pencil to manually block out the original POSTNET. This is not particularly effective since part of the delivery address may be blocked, the original POSTNET code may still be visible or there may still be a duplicate POSTNET imprinted on the piece that needs to be run on the LMLM. Moreover, if the piece has a florescent ID tag on the back, the original delivery address is stored in the Postal Service's data systems. If the equipment processing return to sender mail cannot detect a barcode on the front of the piece, it will process the piece according to the ID tag and may send the piece back to the original delivery address. Thus returns are frequently handled manually throughout the system and, if so, the processing costs are very high.

Based on the available information, it is the Postal Service's best estimate that in FY2002 slightly less than half of return to sender pieces received a verified POSTNET

barcode and were possibly processed on automation. While plants are generally focused on the standard processing of mail, some institute special procedures which attempt to get return-to-sender pieces into the automation mail stream. OCRs (Optical Character Readers) may be used to look for the return address and attempt to apply a new barcode. More often, when the OCR has trouble locating or reading the return address, it sends the mail piece image to a REC (Remote Encoding) site where a manual keyer attempts to extract the necessary data. Those mail pieces whose images went to the REC site are loaded into a DBCS/OSS which is configured to match the mail pieces with information coming from the REC to apply a new barcode. Returning mail can be a very extensive process. Compared to correctly addressed mail, return-to-sender mail pieces often get at least three to four extra handlings.

	Forwarded Mail			**Returned Mail**			
	Cost	%	Total	Cost	%	Total	Difference
Carrier Preparation	$ 0.0314	100.0%	$ 0.0314	$ 0.0545	100%	$ 0.0545	$ 0.023
Clerk Handling	$ 0.2711	9.2%	$ 0.0250	$ 0.2711	49%	$ 0.1328	$ 0.108
CFS Processing	$ 0.1386	90.8%	$ 0.1258	$ 0.1386	35%	$ 0.0485	$ (0.077)
Mailstream Processing	$ 0.1223	100.0%	$ 0.1223	$ 0.2995	100%	$ 0.2995	$ 0.177
Sum			**$ 0.305**			**$ 0.535**	**$ 0.231**

CERTIFICATE OF SERVICE

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

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