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January 22, 2003

Honorable Steven Williams  
Secretary  
Postal Rate Commission  
1333 H Street, N.W.  
Suite 300  
Washington, D.C. 20268-0001

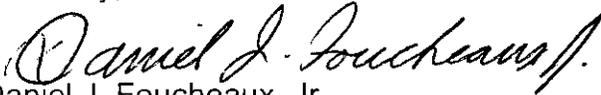
Re: Second Priority Presort Experiment Status Report

Mr. Williams:

Enclosed are corrected copies of the second of the required quarterly status reports summarizing the operation of the experiment authorized by the June 4, 2001, Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Experimental Presorted Priority Mail Rate Categories, Docket No. MC2001-1.

The attachment appended to the report filed on January 17, 2003, was defective. A corrected attachment is appended to the copies of the report submitted today. We regret any inconvenience caused by the error.

Sincerely,

  
Daniel J. Foucheaux, Jr.  
Chief Counsel  
Legal Policy & Ratemaking Law

Enclosures

cc: All parties of record in Docket No. MC2001-1

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Priority Mail Presort Experiment  
Second Quarterly Status Report  
January 17, 2003

## I. Introduction

This report – pursuant to the Statement of Understanding Regarding Periodic Reporting, filed in support of the Stipulation and Agreement approved in Docket No. MC2001-1 – summarizes results of the Priority Mail Presort Experiment in the recently concluded Fiscal Year 2003, Postal Quarter 1 (September 7 - November 29, 2002).

## II. Overview

Five customers signed presort Service Agreements in FY 2003, PQ 1. However, only one of these customers actually presented a presorted mailing in PQ 1. This customer is identified as “Mailer #5” in attached Table 1, which provides summary statistics for the quarter, compiled from postage statements completed by the participating mailers. The other mailers in the table were described in the initial status report.

The table shows that the total number of presorted Priority Mail pieces in PQ 1 was only 20,680 – compared to 7.1 million in all of FY 2002 (as indicated in the initial status report. Seventy-six percent of the FY 2003, PQ1 volume came from Mailer #4. By presort option, 3-digit accounted for 15,817 pieces (76%) and ADC accounted for 4,863 pieces (24%). There was no 5-digit presort volume in PQ 1. The total value of presort discounts in PQ 1 – at 16 cents per piece for a 3-digit presort and 12 cents per piece for an ADC presort – was \$3,114.

## III. Mailer Issues

The big change in FY 2003, PQ 1 compared to FY 2002 was the absence of Mailer #1 from participation in the presort experiment. In FY 2002, Mailer #1 presorted 6.7 million Priority Mail pieces, with 362,786 (5.4%) coming in the first quarter. (Mailer #1’s volume is normally seasonal, with more coming in PQs 2 and 3 than in 1 and 4.) In the initial status report, it was revealed that in August 2002, Mailer #1 was testing a software solution to presort to the required Priority Mail labeling list and to account for the new zoned rates as of June 30, 2002. The results of this test are unclear because, since summer 2002, Mailer #1 has

been substantially moving away from Priority Mail (whether presorted or not presorted). Discussions with the mailer indicate, however, that if there is a return to Priority Mail, the preferred option will be presorting – suggesting that software is no longer an issue.

Mailer #4, which accounted for the majority of presort volume in FY 2003, PQ 1, continues to presort at a level established in the second half of FY 2002. By all accounts the experiment is working well for this customer. Mailer #5, a small presort house, signed a Service Agreement in September and started presorting later that month, but stopped after a week, not finding it cost-effective. Like Mailers #2 and #3, Mailer #5 has dropped out of the experiment.

Four other mailers signed presort Service Agreements in FY 2003, PQ 1, but unlike Mailer #5, have yet to actually presort. One, a letter shop, signed a Service Agreement in time for – and run a presort test in advance of – a seasonal volume spike in October, but ultimately could not presort without compromising end-customer time-sensitivity requirements. Two others, both presort houses, are still trying to round up customers to achieve presort scale. Finally, another potential participant, a “mail house”/letter shop, is eager to presort, but has been unable to obtain barcoded sorting tags/labels, which normally are supplied by the Postal Service. Upon recently learning about this, Postal Service headquarters is now expediting resolution of the matter.

#### IV. Outlook

The Postal Service continues to pursue additional mailers for participation in the Priority Mail Presort Experiment. Several are on the verge of signing Service Agreements. These mailers, as well as those mailers who have signed Service Agreements but not yet presorted, suggest the potential for additional volume in FY 2003, PQ 2. Ultimately, though, the volume impact will depend greatly on whether Mailer #1 returns to Priority Mail.

**Table 1. Priority Mail Presort Experiment: Summary Statistics, Postal Quarter 1, Fiscal Year 2003**

	Mailer #1	Mailer #2 (a)	Mailer #4	Mailer #5 (a)	Total
Start	7/20/01	10/1/01	1/2/02	9/24/02	
Last	8/14/02	9/13/02	11/29/02	9/30/02	
Mail-Piece Shape	Flats	Parcels	Parcels	Flats	
Identical-Weight Pieces?	Yes	No	No	No	
Zones	All	1 - 5	7	Flat-Rate Env.	
Volume					
5-Digit Presort	0	0	0	0	0
3-Digit Presort	0	0	15,767	50	15,817
ADC Presort	0	4,028	0	835	4,863
Residual	0	0	16,368	779	17,147
Total Presort (b)	0	4,028	15,767	885	20,680
Total w/ Residual (c)	0	4,028	32,135	1,664	37,827
Volume Distribution					
5-Digit Presort	N.A.	N.A.	N.A.	N.A.	N.A.
3-Digit Presort	0%	0%	100%	0%	100%
ADC Presort	0%	83%	0%	17%	100%
Residual	0%	0%	95%	5%	100%
Total Presort	0%	19%	76%	4%	100%
Total w/ Residual	0%	11%	85%	4%	100%
Presort Discounts					
5-Digit (@ \$.25/piece)	\$0	\$0	\$0	\$0	\$0
3-Digit (@ \$.16/piece)	\$0	\$0	\$2,523	\$8	\$2,531
ADC (@ \$.12/piece)	\$0	\$483	\$0	\$100	\$584
Total	\$0	\$483	\$2,523	\$108	\$3,114
Total Weight (Lbs., w/ Residual)	0	7,507	33,868	1,654	43,029
Avg. Weight per Piece (Lbs.)	N.A.	1.86	1.05	0.99	1.14

(a) Dropped out of the experiment. A previous mailer (#3) also dropped out.

(b) Same period last year for Mailer #1 = 362,786

(c) Same period last year for Mailer #1 = 495,608