

USPS-T-26

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

DIRECT TESTIMONY
OF
SAMUEL T. CUTTING
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Samuel T. Cutting. I am a Vice President at Christensen
3 Associates, an economic research and consulting firm located in Madison,
4 Wisconsin. I joined Christensen Associates in June of 1996 as an Economist,
5 was promoted to Senior Economist in January of 1997, and to my current
6 position in January of 2006. My education includes a B.A. in economics from
7 Davidson College in 1989, a M.S. in economics from the University of Texas at
8 Austin in 1994, and a Ph.D. in economics from the University of Texas at Austin
9 in 1996. While a graduate student at the University of Texas, I was a teaching
10 assistant for two years. I was subsequently promoted to the level of
11 supplemental instructor, a position I held for two years. I was an instructor for
12 intermediate microeconomics, intermediate macroeconomics, and mathematics
13 for economists.

14 Much of my work at Christensen Associates has dealt with the statistical
15 issues of mail volumes and mail characteristics, as well as the development of
16 cost models of mail processing. In Docket No. R2005-1, I gave direct testimony
17 on a variety of cost studies of First-Class Mail, Standard Mail Enhanced Carrier
18 Route (ECR), Bound Printed Matter, and Parcel Post (USPS-T-26). I have also
19 worked in support of a number of witnesses in previous cases including witness
20 Talmo (USPS-ST-50/R97-1), witness McGrane (USPS-ST-44/R97-1), witness
21 Daniel (USPS-T-28/R2000-1), and witness Loetscher (USPS-T-41/R2001-1). My
22 work on other postal projects includes developing strategic planning financial
23 forecasting models and volumetric databases for international mail.

1 **ASSOCIATED LIBRARY REFERENCES**

2

3 USPS-LR-L-61: *Volumes, Characteristics, and Costs of Processing*
4 *Undeliverable-As-Addressed Mail and Personal-Knowledge-Required Mail,*
5 *FY 2004*

6 This library reference contains printed and electronic documentation of the
7 spreadsheets and programs used to develop volumes, characteristics, and
8 costs of processing Undeliverable-As-Addressed mail and Personal-
9 Knowledge-Required mail, benchmarked to FY 2004.¹ The results of this
10 library reference are used as inputs to USPS-LR-L-62. Some of the
11 volumes in USPS-LR-L-61 are needed by witness Page (USPS-T-23) in
12 developing a return-receipt cost analysis. Witness Mitchum (USPS-T-40)
13 uses some of the volumes in USPS-LR-L-61 in determining prices for
14 forwarding service of Standard Mail.

15

16 USPS-LR-L-62: *Volumes, Characteristics, and Costs of Processing*
17 *Undeliverable-As-Addressed Mail, TY 2008*

18 This library reference contains printed and electronic documentation of the
19 spreadsheets used to develop test-year volumes, characteristics, and
20 costs of processing Undeliverable-As-Addressed mail. Witness Page
21 (USPS-T-23) uses some of the cost and volume results of this analysis in
22 making final adjustments to the portion of the rollforward model associated
23 with NSA activity. Witness Mitchum (USPS-T-40) uses some of the costs
24 and volume results of this analysis in developing prices for Address
25 Correction Service notices and in determining prices for forwarding service
26 of Standard Mail.

¹ The results of library reference USPS-LR-L-61 are based in part on FORTRAN programs. These programs are available in the "L61AppendixC" folder of the CD attached to this library reference. That folder contains text files that can be opened by any text editor.

1 USPS-LR-L-116: *Undeliverable-As-Addressed Mail, Hypothetical Cost Estimation*
2 *of a Fully-Deployed PARS Environment Applied to FY 2004 Volumes*

3 This library reference contains printed and electronic documentation of the
4 spreadsheets used to develop hypothetical cost estimates of a fully-
5 deployed PARS environment applied to FY 2004 UAA volumes. This
6 study establishes a point of reference from which to forecast the future
7 cost impacts of PARS once it is fully deployed. The results of this library
8 reference are used as inputs to USPS-LR-L-62.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 This testimony sponsors the Fiscal Year (FY) 2004 study of Undeliverable-
3 As-Addressed (UAA) mail. This study, available in USPS-LR-L-61, provides
4 comprehensive information on the volume, characteristics, and costs of
5 processing UAA mail. Data in USPS-LR-L-61 are national in scope and
6 benchmarked to FY 2004 levels. Detail is provided by mail class, rate category,
7 and shape. Where appropriate, additional characteristics are provided, such as
8 the reason(s) a mail piece is UAA, ancillary service endorsements, and Address
9 Correction Service characteristics.

10 The last formal study of UAA mail was conducted in May of 1999 and
11 published in September of 1999.² The UAA study available in USPS-LR-L-61 is
12 intended to replace and improve upon the 1999 study, providing more recent
13 information on topics covered in the 1999 study and more completely exploring
14 the full range of UAA processing activities and mail categories. A variety of data
15 sources are used to generate the results in USPS-LR-L-61 including detailed
16 field surveys at Postal Service delivery units and Computerized Forwarding
17 System (CFS) units. All surveys were conducted over a four-week period in
18 August of 2004.

19 The UAA study available in USPS-LR-L-61 also measures a new category
20 of mail: Personal-Knowledge-Required (PKR) mail. PKR mail is mail with
21 address quality problems that is delivered only because of carriers' personal
22 knowledge. Lacking this knowledge, PKR mail would be undeliverable. Cost
23 and volume estimates of PKR mail are reported in USPS-LR-L-61.

24 Some of the UAA volume statistics developed in USPS-LR-L-61 are
25 needed by other witnesses in this case. Witness Page (USPS-T-23) uses the
26 percentage of UAA mail relative to total mail volume in developing a return-
27 receipt cost analysis. Witness Mitchum (USPS-T-40) uses the ancillary service

² *Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail, September, 1999, PriceWaterhouseCoopers.*

1 endorsement volumes of Standard Mail in determining prices for forwarding
2 service of this mail class.

3 This testimony also sponsors the projection of UAA costs and volumes to
4 Test Year (TY) 2008 as reported in USPS-LR-L-62. This study examines some
5 of the components of the Postal Automated Redirection System (PARS), a
6 system for improving the way that the Postal Service processes automated UAA
7 letter mail and some types of Postal Service forms and address correction
8 notices.³

9 Some of the UAA volume and cost statistics developed in USPS-LR-L-62
10 are needed by other witnesses in this case. Witness Page (USPS-T-23) uses
11 the projected unit-cost differentials of certain types of UAA mail in making final
12 adjustments to the portion of the rollforward model associated with Negotiated
13 Service Agreement (NSA) activity. Witness Mitchum (USPS-T-40) uses the unit-
14 cost projections of manual and electronic address notices in developing prices for
15 these notices. Witness Mitchum (USPS-T-40) also uses the cost and volume
16 projections of Standard Mail in developing prices for forwarding service of this
17 mail class.

³ USPS-LR-L-116, which is also sponsored in this testimony, develops hypothetical cost estimates of processing UAA mail in a PARS environment, benchmarked to FY 2004. The results of this library reference are used as inputs to USPS-LR-L-62.

1 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

2 The UAA study contained in USPS-LR-L-61 is benchmarked to FY 2004
3 levels and, hence, requires no base-year or test-year inputs from other witnesses
4 in this case. Inputs in USPS-LR-L-61 are based on survey data collected in 2004
5 and values developed from witnesses in Docket R2005-1. Refer to USPS-LR-L-
6 61 for specific details. Witnesses Page (USPS-T-23) and Mitchum (USPS-T-40)
7 use some of the volume results from USPS-LR-L-61 as specified in the sections
8 below.

9 The UAA study contained in USPS-LR-L-62 is tied to TY 2008 volume
10 and cost levels. The following witnesses in this case provide inputs used in
11 USPS-LR-L-62: witness Waterbury (USPS-T-10) provides test-year CRA costs
12 (USPS-LR-L-7), witness Thress (USPS-T-7) provides test-year volumes (USPS-
13 LR-L-66), witness Smith (USPS-T-13) provides test-year piggyback factors
14 (USPS-LR-L-52 and 53), witness Loutsch (USPS-T-6) provides test-year
15 productive hourly wage rates (USPS-LR-L-50), and witness Abdirahman (USPS-
16 T-22) provides test-year mail processing costs for First-Class Mail letters (USPS-
17 LR-L-48). Witnesses Page (USPS-T-23) and Mitchum (USPS-T-40) use some of
18 the cost and volume results from USPS-LR-L-62 as specified in the sections
19 below.

1 III. OVERVIEW OF UNDELIVERABLE-AS-ADDRESSED MAIL

2 UAA mail is mail that cannot be delivered to the address specified on the
3 mail piece and must be forwarded, returned to sender, or properly treated as
4 waste or dead mail as authorized for the class of mail and ancillary service
5 endorsement on the mail piece.⁴ The actions required to process UAA mail
6 create additional costs for the Postal Service and affect the timeliness of mail
7 delivery. A mail piece may become UAA because:

- 8 • the individual, family, or business to which it is addressed has moved
- 9 • the address is incomplete, incorrect, or illegible
- 10 • the addressee is unknown or deceased
- 11 • the addressee refuses or fails to claim the mail
- 12 • the necessary postage has not been paid

13
14 USPS-LR-L-61 provides comprehensive information on the volume,
15 characteristics, and costs of UAA mail. The variety of details reported in USPS-
16 LR-L-61 encompasses all the major activities required to process all categories
17 of UAA mail. Refer to USPS-LR-L-61 for the methodology used to develop all
18 UAA statistics.

19 Table 1 reports the FY 2004 volumes, inflated to the national level of UAA
20 mail by class, rate category, and final disposition as reported in USPS-LR-L-61.
21 “Disposition” is a term used to describe the treatment of UAA mail in the
22 processing stream. “Final disposition” indicates what ultimately happens to a
23 mail piece as it exits the processing stream. There are three types of final
24 disposition for UAA mail: forwarded to the addressee, returned to the sender, or
25 properly treated as waste or dead mail as authorized for the class of mail and
26 ancillary service endorsement on the mail piece.

27
⁴ There are four ancillary service endorsements allowed by the Postal Service: Forwarding Service Requested, Return Service Requested, Address Service Requested, and Change Service Requested.

Table 1
Final Disposition of Volume of UAA Mail by Class of Mail / Rate Category
Fiscal Year 2004
(Volume Reported in Millions)

	RPW FY 04 Volume	Total UAA		Final Disposition					
		Volume	Percent	Forwarded		Returned to Sender		Wasted	
				Volume	Percent	Volume	Percent	Volume	Percent
First-Class Mail									
Single-Piece	47,687.7	1,210.2	2.5%	659.8	1.4%	550.2	1.2%	0.2	0.0%
Presorted	2,553.6	177.1	6.9%	76.0	3.0%	96.4	3.8%	4.7	0.2%
Automation	47,685.1	1,944.0	4.1%	1,083.5	2.3%	819.4	1.7%	41.1	0.1%
Total	97,926.4	3,331.4	3.4%	1,819.4	1.9%	1,466.0	1.5%	46.0	0.0%
Periodicals									
Presorted	807.1	13.0	1.6%	6.0	0.7%	2.1	0.3%	4.9	0.6%
Carrier Route	4,454.2	77.8	1.7%	41.6	0.9%	4.3	0.1%	31.9	0.7%
Automation	3,874.0	113.5	2.9%	57.7	1.5%	10.3	0.3%	45.5	1.2%
Total	9,135.3	204.3	2.2%	105.3	1.2%	16.7	0.2%	82.3	0.9%
Standard Mail									
Presorted	5,359.5	578.3	10.8%	7.1	0.1%	18.2	0.3%	553.0	10.3%
Automation	57,208.3	4,477.4	7.8%	23.8	0.0%	67.0	0.1%	4,386.7	7.7%
ECR	32,995.7	1,052.9	3.2%	2.0	0.0%	8.7	0.0%	1,042.3	3.2%
Total	95,563.5	6,108.7	6.4%	32.9	0.0%	93.9	0.1%	5,981.9	6.3%
Package Services									
Parcel Post	114.4	0.4	0.4%	0.2	0.1%	0.3	0.2%	0.0	0.0%
Parcel Select	261.2	1.0	0.4%	0.8	0.3%	0.1	0.1%	0.1	0.0%
BPM	553.7	30.1	5.4%	1.9	0.3%	2.9	0.5%	25.3	4.6%
Media/Library	202.6	2.4	1.2%	0.7	0.3%	1.7	0.8%	0.0	0.0%
Total	1,131.9	33.9	3.0%	3.5	0.3%	5.0	0.4%	25.3	2.2%
Other Classes									
International (1)	580.2	20.3	3.5%	13.6	2.3%	6.7	1.2%	0.0	0.0%
Priority	848.6	6.0	0.7%	4.1	0.5%	1.9	0.2%	0.0	0.0%
USPS	529.3	17.4	3.3%	5.8	1.1%	11.2	2.1%	0.3	0.1%
Free	71.1	2.5	3.5%	0.7	1.0%	1.8	2.5%	0.0	0.0%
Express	54.1	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	2,083.3	46.1	2.2%	24.1	1.2%	21.7	1.0%	0.3	0.0%
Grand Total	205,840.4	9,724.3	4.7%	1,985.2	1.0%	1,603.3	0.8%	6,135.9	3.0%

Notes:

(1) Volume in the RPW column is based on international inbound (foreign origin) mail as reported in the ICRA, FY 04.

Source: USPS-LR-L-61, Table 2.3

1

2

3 For each class and rate category, RPW reference volumes are provided in Table
4 1. As shown at the bottom of the table, UAA mail represents 4.7 percent of total
5 RPW volume. Witness Page (USPS-T-23) uses this result in his return-receipt
6 cost analysis.

7

8 Table 2 reports the inflated FY 2004 volumes of UAA Standard Mail by
9 ancillary service endorsement as found in USPS-LR-L-61. Standard Mail
10 containing the "Forwarding Service Requested" endorsement is either forwarded
11 or returned depending on the UAA reason (moved, bad address, etc.) and, when
12 applicable, the age of the change-of-address order. Standard Mail containing the
"Return Service Requested" endorsement is returned to the mailer in all cases.

1 The volumes appearing in Table 2 are used by witness Mitchum (USPS-T-40) in
2 developing prices for the forwarding service of Standard Mail.

3

Table 2	
Volume of UAA Standard Mail	
By Ancillary Service Endorsement	
Fiscal Year 2004	
(Volume Reported in Millions)	
Ancillary Service Endorsement	Volume
Forwarding Service Requested	17.5
Return Service Requested	53.8

Source: USPS-LR-L-61, Table 5.13

4

1 IV. PRE-PARS AND PARS ENVIRONMENTS

2 Starting in September of 2004, the Postal Service began deploying the
3 first phase of the Postal Automated Redirection System (PARS). The objective
4 of PARS is to improve the way that the Postal Service processes automated UAA
5 letter mail and some types of Postal Service forms and address correction
6 notices. The introduction of PARS represents a major shift in the way a large
7 portion of the UAA mail stream is processed. Processing costs associated with
8 UAA mail are anticipated to fall once PARS is fully deployed across the entire
9 Postal Service network. PARS is expected to be fully deployed by FY 2008.

10 USPS-LR-L-61 develops the cost of processing UAA mail, forms, and
11 notices in a pre-PARS environment. That is, no PARS components are included.
12 Since PARS deployment did not effectively begin until FY 2005, the pre-PARS
13 FY 2004 cost framework represents the last actual “snapshot” of the UAA
14 processing system before the advent of PARS.

15 In USPS-LR-L-116, the UAA cost framework is reconfigured to include the
16 operational components of PARS. All cost values continue to be benchmarked
17 to FY 2004 levels. In this environment, it is assumed that PARS is fully deployed
18 (for reasons explained below). In addition, it is assumed that PARS has no
19 impact on the quantity of UAA mail, but only on the way in which that mail is
20 handled. Hence, this PARS environment is a hypothetical estimation of the UAA
21 cost structure in FY 2004 dollars based on known FY 2004 UAA volumes.

22 In USPS-LR-L-62, the PARS FY 2004 environment is used as a point of
23 reference from which to project the TY 2008 UAA processing system. This is
24 accomplished by rolling forward volume and cost inputs from FY 2004 to TY
25 2008 levels. Volumes are rolled forward using RPW test-year growth rates offset
26 by projected reductions due to UAA program initiatives. Costs are rolled forward
27 using test-year hourly wage rates and piggyback factors.⁵

⁵ Transportation costs are rolled forward based on test-year CRA costs.

1 Since full PARS deployment is assumed throughout USPS-LR-L-62, there
2 is no need to approximate the level of PARS participation when moving from FY
3 2004 to TY 2008. This is an important point. A key motivation for not using FY
4 2005 as the rollforward reference point is the desire to avoid the need to
5 approximate the level of PARS participation in FY 2005—a so-called partial-
6 PARS environment. Since the study is national in scope, with no underlying
7 regional or local detail, a partial-PARS environment would require the use of ad
8 hoc adjustment factors to approximate which portion of UAA volumes would flow
9 through partially deployed PARS components and which portion would not.
10 These issues are avoided by using the hypothetical PARS FY 2004 environment
11 as the rollforward reference point.

1 **V. COSTS OF FULFILLING ADDRESS CORRECTION REQUESTS**

2 The Postal Service's Address Correction Service provides mailers with a
3 notification when an address on a mailed piece is out of date or incorrect, or
4 when the mail piece cannot be delivered for some other reason (addressee
5 deceased, mail refused, etc.) This notification occurs manually on Forms 3547
6 and 3579, or electronically through the Address Change Service (ACS).⁶ Mailers
7 who use the manual notification service are required to display an appropriate
8 ancillary service endorsement on their mail pieces (excluding Periodicals).
9 Mailers who use the electronic notification service must use an appropriate
10 ancillary service endorsement on their mail pieces (excluding Periodicals) as well
11 as an ACS participant code and, in some cases, an ACS keyline code.⁷

12 USPS-LR-L-62 provides the test-year cost calculations of the various
13 components of the Address Correction Service. This library reference relies on
14 other witnesses' library references in this docket. The following sources are
15 used:

- 16 • USPS-LR-L-7 (Waterbury) for test-year CRA costs by cost segment
17 • USPS-LR-L-66 (Thress) for test-year volumes
18 • USPS-LR-L-52 (Smith) for test-year piggyback factors by CRA cost
19 segment and subclass

⁶ The term "Address Correction Service" is used to refer to the entire notification system, including both manual and electronic notices. The term "Address Change Service" is used to refer to only the electronic notification system. Throughout this testimony and its associated library references, the acronym "ACS" always stands for Address Change Service.

⁷ The ACS participant code is a 7-character code that identifies the mailer and specific class of mail. The participant code is required on all UAA pieces that request electronic notification. The ACS keyline code is a 4 to 16-character code used by the mailer to identify the address information on the mail piece or other similar information. The keyline code is optional but must be used if mailers wish to receive electronic nixie notifications (bad address information, etc.). ACS codes are printed above the address block on a mail piece and preceded by a pound sign (#) delimiter.

- 1 • USPS-LR-L-53 (Smith) for test-year mail processing piggyback factors by
- 2 mail processing cost pool
- 3 • USPS-LR-L-50 (Loutsch) for test-year productive hourly wage rates
- 4 • USPS-LR-L-48 (Abdirahman) for test-year mail processing costs for First-
- 5 Class Mail letters

6

7 Table 3 reports the test-year costs and volumes of Address Correction
 8 Service manual notices as found in USPS-LR-L-62. Form 3579 is used for
 9 Periodicals and Form 3547 is used for all other classes.

10

Table 3			
Address Correction Service			
Costs and Volumes of Manual Notices			
Notices Based on UAA Mail, All Classes and Shapes			
Test Year 2008			
	Cost	Volume	Unit
	(\$000)	(000)	Cost (Cents)
Form 3547 Activities	\$45,618	130,172	35.0 ¢
Form 3579 Activities	\$15,244	23,473	64.9 ¢
Total	\$60,863	153,644	39.6 ¢

11 Source: USPS-LR-L-62, Table 3.1

12

13

14 Note that the cost data in Table 3 are associated with activities to process the
 15 manual notices themselves (photocopying, mail processing and transportation,
 16 accountable unit work, etc.), not to process the UAA mail pieces associated with
 17 the notices. The volumes in Table 3 are based on UAA mail pieces that received
 18 Form 3547 or Form 3579 notices over all classes and shapes. Witness Mitchum
 19 (USPS-T-40) uses the results of this analysis in developing prices for the
 20 Address Correction Service manual notices.

21

22

21 Table 4 reports the test-year costs and volumes of Address Correction
 22 Service electronic notices as found in USPS-LR-L-62.

Table 4
Address Correction Service
Costs and Volumes of Electronic Notices
Notices Based on UAA Mail, All Shapes
Test Year 2008

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$6,048	136,734	4.4 ¢
Periodicals	\$52,092	145,562	35.8 ¢
All Other	\$15,489	71,074	21.8 ¢

Source: USPS-LR-L-62, Table 5.3

1

2

3 Note that the cost data in Table 4 are associated only with the activities to
4 process the electronic notices themselves (identifying and recording ACS codes,
5 etc.), not to process the UAA mail pieces associated with the notices. The
6 volumes in Table 4 are based on UAA mail pieces that received electronic
7 notices over all shapes. As shown in the right-hand column of the table, the unit
8 costs of processing electronic notices vary depending on the class of mail.
9 These unit-cost differences are primarily driven by the shape of the UAA mail
10 piece associated with the notices. For instance, most of the electronic notices for
11 First-Class Mail are associated with letters, which will be primarily processed
12 automatically on PARS-enabled sorting equipment through Optical Character
13 Reader (OCR) technology and intervention, when needed, by Remote Encoding
14 Center (REC) operators to identify and record alpha-numeric text. On the other
15 hand, most of the notices for Periodicals are associated with flats, which are
16 processed in CFS units and, hence, have a higher unit cost. Witness Mitchum
17 (USPS-T-40) uses the results of this analysis in developing prices for the
18 Address Correction Service electronic notices.

19

20 An important variation of electronic notification processing is the
21 “OneCode ACS” environment, which will be available to UAA letters that contain
22 the so-called 4-state barcode. The 4-state barcode is a 31-digit barcode that
23 allows customers to condense multiple mail piece attributes into one barcode
string. The 4-state barcode is long enough to completely and uniquely contain all

1 the information needed for an electronic notice.⁸ In the OneCode ACS
 2 environment, PARS-enabled sorting equipment will be able to identify letters that
 3 require an electronic notice by reading the 4-state barcode, rather than using
 4 OCR technology and REC sites. The use of the 4-state barcode is expected to
 5 reduce the cost of processing electronic notices associated with UAA letters.

6 Table 5 reports the test-year costs and volumes of Address Correction
 7 Service electronic notices provided by the use of the OneCode ACS environment
 8 as found in USPS-LR-L-62. For the purposes of developing the costs of
 9 OneCode ACS, it is assumed that all UAA letters associated with electronic
 10 notices processed on PARS-enabled sorting equipment contain the 4-state
 11 barcode.

12

Table 5			
Address Correction Service			
Costs and Volumes of Electronic Notices			
Notices Based on UAA Mail, Letters			
OneCode ACS Environment			
Test Year 2008			
Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$588	132,219	0.4 ¢
Standard Mail	\$175	38,803	0.5 ¢
Source: USPS-LR-L-62, Table 5.4			

13

14

15 Notice the slight variation in unit costs between First-Class Mail and Standard
 16 Mail. This is due to differences between the two classes in the volume mix of

⁸ A 4-state barcode is similar to the existing POSTNET Code and PLANET Code barcodes. These barcodes belong to the class of height-modulated barcodes. While the POSTNET Code and PLANET Code barcodes use tall bars and short bars to encode data, the 4-state barcode uses tall bars and short bars at 3 different vertical positions so that more information can be encoded in about the same amount of space.

- 1 letters that are rejected from PARS-enabled sorting equipment.⁹ Witness
- 2 Mitchum (USPS-T-40) uses the results of this analysis in developing prices for
- 3 the Address Correction Service electronic notices for OneCode ACS mail pieces.

⁹ See Section 5 of USPS-LR-L-62 for more details.

1 **VI. ELECTRONIC VERSUS PHYSICAL RETURNS**

2 In order to support current NSAs, the Postal Service uses a measurement
 3 of the cost difference between UAA mail pieces that are physically returned to
 4 the mailer versus UAA mail pieces for which an electronic address correction
 5 notice is sent to the mailer and the mail piece itself is wasted—so-called
 6 electronic returns.¹⁰

7 Table 6 reports the test-year UAA First-Class Mail costs and volumes of
 8 electronic and physical returns by shape as found in USPS-LR-L-62.

9

Table 6			
UAA First-Class Mail			
Electronic and Physical Returns			
Costs and Volumes by Shape			
Test Year 2008			
Letters			
	Cost	Volume	Unit
Return Type	(\$000)	(000)	Cost
Physical	\$387,511	1,195,455	32.4 ¢
Electronic	\$5,056	40,945	12.3 ¢
	Unit Cost Difference --->		20.1 ¢
Flats			
	Cost	Volume	Unit
Return Type	(\$000)	(000)	Cost
Physical	\$58,626	56,025	104.6 ¢
Electronic	\$1,016	1,631	62.3 ¢
	Unit Cost Difference --->		42.3 ¢
Source: USPS-LR-L-62, Tables 5.8 and 5.12			

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11

¹⁰ Some UAA mail pieces that are associated with electronic notices are not wasted but instead are physically forwarded to the addressee or returned to the mailer depending on the ancillary service endorsement and, when applicable, the age of the change-of-address order. Such pieces are excluded from the analysis in this section.

1 Note that the activities associated with the costs in Table 6 cover all activities
2 from the time a mail piece is identified as UAA until it reaches its final disposition.
3 For physical returns, this includes the costs of carrier preparation, nixie clerk
4 handling, redirection processing (at the CFS unit or on PARS-enabled sorting
5 machines), and postage due activities. For electronic returns, this includes the
6 costs of carrier preparation, nixie clerk handling, redirection processing, and ACS
7 code identification and recording (at the CFS unit or on PARS-enabled sorting
8 machines). Witness Page (USPS-T-23) uses the results of this analysis in
9 making final adjustments to the portion of the rollforward model associated with
10 NSA activity.

1 **VII. FORWARDED STANDARD MAIL**

2 Move-related Standard Mail with a change-of-address order that is twelve
 3 months of age or younger is forwarded as long as the mail piece contains the
 4 appropriate ancillary service endorsement. Table 7 reports the test-year
 5 Standard Mail costs and volumes by shape of mail that is forwarded, as found in
 6 USPS-LR-L-62.

7

8

Table 7			
Forwarded UAA Standard Mail			
Costs and Volumes by Shape			
Test Year 2008			
Shape	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Letters	\$3,394	22,132	15.3 ¢
Flats	\$5,181	11,357	45.6 ¢
Source: USPS-LR-L-62, Tables 4.22, 4.25, 4.28			

9

10

11 Note that the activities associated with the costs in the table cover all activities
 12 (excluding Address Correction Service activities) from the time a mail piece is
 13 identified as UAA until it reaches its final disposition including the costs of carrier
 14 preparation, nixie clerk handling, redirection processing (at the CFS unit or on
 15 PARS-enabled sorting machines), and postage due activities. Witness Mitchum
 16 (USPS-T-40) uses the results of this analysis in developing prices for forwarding
 17 service of Standard Mail.

1 **VIII. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY**

2 In the following section, results from the PRC version of USPS-LR-L-62
3 sponsored in this testimony are presented along with the material differences
4 between the PRC version and the Postal Service version. To the extent that, in
5 response to Commission Rule 53, I discuss and compare PRC versions of
6 costing materials in this testimony, I do not sponsor those materials, or in any
7 way endorse the methodologies used to prepare them. In its Order No. 1380
8 adopting the roadmap rule, the Commission included the following statements
9 regarding the role played by Postal Service witnesses under these
10 circumstances:

11 The comparison required by this exercise cannot be equated
12 with sponsoring the preexisting methodology. It merely identifies
13 and gives context to the proposed change, serving as a benchmark
14 so that the impact can be assessed. ... [W]itnesses submitting
15 testimony under Rule 53(c) sponsor the proposed methodological
16 changes, not the preexisting methodology. That they may be
17 compelled to reference the preexisting methodology does not mean
18 that they are sponsoring it.¹¹
19

20 Therefore, although I may be compelled to refer to the PRC methodologies and
21 versions corresponding to the Postal Service proposals which are the subject of
22 my testimony, my testimony does not sponsor those PRC materials.

23 The material changes between USPS-LR-L-62, *Volumes, Characteristics,*
24 *and Costs of Processing Undeliverable-As-Addressed Mail, TY 2008*, and USPS-
25 LR-L-117, *PRC Version/Volumes, Characteristics, and Costs of Processing*
26 *Undeliverable-As-Addressed Mail, TY 2008*, are differences in the following
27 inputs: test-year CRA costs, piggyback factors, and mail processing costs for
28 First-Class Mail letters. The following tables compare the test-year cost
29 estimates produced in USPS-LR-L-62 and the test-year cost estimates produced
30 in the PRC version, USPS-LR-L-117.

¹¹ Order No. 1380 (August 7, 2003) at 7.

Table 8
Address Correction Service
Costs and Volumes of Manual Notices
Notices Based on UAA Mail, All Classes and Shapes
USPS Method Versus PRC Method
Test Year 2008

USPS Method

	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Form 3547 Activities	\$45,618	130,172	35.0 ¢
Form 3579 Activities	\$15,244	23,473	64.9 ¢
Total	\$60,863	153,644	39.6 ¢

Source: USPS-LR-L-62, Table 3.1

PRC Method

	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Form 3547 Activities	\$46,190	130,172	35.5 ¢
Form 3579 Activities	\$15,536	23,473	66.2 ¢
Total	\$61,726	153,644	40.2 ¢

Source: USPS-LR-L-117, Table 3.1

Differences

	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Form 3547 Activities	-\$572	0	-0.4 ¢
Form 3579 Activities	-\$292	0	-1.2 ¢
Total	-\$863	0	-0.6 ¢

Table 9
Address Correction Service
Costs and Volumes of Electronic Notices
Notices Based on UAA Mail, All Shapes
USPS Method versus PRC Method
Test Year 2008

USPS Method

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$6,048	136,734	4.4 ¢
Periodicals	\$52,092	145,562	35.8 ¢
All Other	\$15,489	71,074	21.8 ¢

Source: USPS-LR-L-62, Table 5.3

PRC Method

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$6,103	136,734	4.5 ¢
Periodicals	\$53,430	145,562	36.7 ¢
All Other	\$15,801	71,074	22.2 ¢

Source: USPS-LR-L-117, Table 5.3

Differences

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	-\$56	0	0.0 ¢
Periodicals	-\$1,338	0	-0.9 ¢
All Other	-\$313	0	-0.4 ¢

Table 10
Address Correction Service
Costs and Volumes of Electronic Notices
Notices Based on UAA Mail, Letters
OneCode ACS Environment
USPS Method versus PRC Method
Test Year 2008

USPS Method

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$588	132,219	0.4 ¢
Standard Mail	\$175	38,803	0.5 ¢

Source: USPS-LR-L-62, Table 5.4

PRC Method

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	\$604	132,219	0.5 ¢
Standard Mail	\$180	38,803	0.5 ¢

Source: USPS-LR-L-117, Table 5.4

Differences

Class	Cost (\$000)	Volume (000)	Unit Cost (Cents)
First-Class Mail	-\$16	0	0.0 ¢
Standard Mail	-\$5	0	0.0 ¢

Table 11
UAA First-Class Mail
Electronic and Physical Returns
Costs and Volumes by Shape
USPS Method versus PRC Method
Test Year 2008

USPS Method
Letters

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	\$387,511	1,195,455	32.4 ¢
Electronic	\$5,056	40,945	12.3 ¢
	Unit Cost Difference --->		20.1 ¢

Flats

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	\$58,626	56,025	104.6 ¢
Electronic	\$1,016	1,631	62.3 ¢
	Unit Cost Difference --->		42.3 ¢

Source: USPS-LR-L-62, Tables 5.8 and 5.12

PRC Method
Letters

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	\$397,644	1,195,455	33.3 ¢
Electronic	\$5,086	40,945	12.4 ¢
	Unit Cost Difference --->		20.8 ¢

Flats

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	\$59,941	56,025	107.0 ¢
Electronic	\$1,035	1,631	63.4 ¢
	Unit Cost Difference --->		43.5 ¢

Source: USPS-LR-L-117, Tables 5.8 and 5.12

Differences
Letters

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	-\$10,133	0	-0.8 ¢
Electronic	-\$30	0	-0.1 ¢

Flats

Return Type	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Physical	-\$1,316	0	-2.3 ¢
Electronic	-\$19	0	-1.1 ¢

Table 12
Forwarded UAA Standard Mail
Costs and Volumes by Shape
USPS Method versus PRC Method
Test Year 2008

USPS Method

Shape	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Letters	\$3,394	22,132	15.3 ¢
Flats	\$5,181	11,357	45.6 ¢

Source:

USPS-LR-L-62, Tables 4.22, 4.25, 4.28

PRC Method

Shape	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Letters	\$3,459	22,132	15.6 ¢
Flats	\$5,312	11,357	46.8 ¢

Source:

USPS-LR-L-117, Tables 4.22, 4.25, 4.28

Differences

	Cost (\$000)	Volume (000)	Unit Cost (Cents)
Letters	-\$65	0	-0.3 ¢
Flats	-\$131	0	-1.2 ¢