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

POSTAL RATE AND FEE CHANGES, 1997	:	Docket No. R97-1

DIRECT TESTIMONY OF DENNIS MACHARG ON BEHALF
OF THE NATIONAL ASSOCIATION OF PRESORT MAILERS

December 30, 1997

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1 I. Statement Of Experience And Qualifications.

2 I, Dennis MacHarg, am the President of the National Association of Presort Mailers
3 ("NAPM") and have served as a Director of the Association since 1986. My experience in mail
4 processing dates back to 1980 when I founded Advance Presort Services, a major presort bureau
5 based in Chicago, Illinois with a daily volume of approximately 2 million pieces. I am and have
6 been President of Advance Presort Services since its founding in 1980. I have been the NAPM
7 representative on MTAC for the past eight years. I served on the MTAC Committee to rewrite
8 the Domestic Mail Manual ("DMM") in 1993 as a representative of First-Class mailers. I also
9 served on the USPS Competitive Services Task Force in 1992.

10

11 II. Purpose.

12 The purpose of this testimony is to provide the Commission with the benefit of the
13 perspective of presort bureaus on several aspects of the USPS Proposal in R97-1. In particular, I
14 discuss the failure of the USPS to credit worksharing FCLM with the substantial mail forwarding
15 cost savings which result from the move update requirements applicable to worksharing FCLM; I
16 identify additional cost savings provided by presort bureaus but not reflected in the worksharing
17 FCLM incentives; I discuss the overall value of the worksharing program to the USPS; I stress
18 the need for increasing the incentives for the more valuable automated 3 digit and 5 digit FCLM
19 relative to the less valuable automated basic FCLM; and I stress the benefits to the USPS of
20 preserving the heavyweight incentive for heavyweight presorted FCLM and of modifying rates
21 and makeup characteristics to attract more barcoded FCLM flats.

III. The USPS Proposal Fails To Recognize Substantial Mail Forwarding Cost Savings Of Worksharing FCLM.

The USPS Proposal in R97-1 fails to include substantial reductions in the costs of forwarding of undeliverable-as-addressed mail due to compliance of worksharing FCLM with move update requirements. Mailers have incurred and are incurring substantial expenses in order to comply with the move update requirements which were made applicable to worksharing FCLM effective July 1, 1997. It is frustrating to see the USPS impose such a requirement on worksharing FCLM without making any effort to quantify the obvious benefit which the USPS derives from such requirement as a result of the reduction in USPS costs of forwarding UAA mail.

In my company, in order to comply with move update requirements, we have currently implemented Fast Forward on two of our five MLOCRs and expect to have implemented Fast Forward on three of our five MLOCRs by March 31, 1998 (halfway through the 1998 test year in R97-1). This Fast Forward methodology avoids most all mail forwarding costs to the USPS for that worksharing FCLM which goes through Fast Forward.

Based upon my conversations with other presort bureaus and equipment manufacturers, it is my conservative estimate that by March 31, 1998, at least 25% of worksharing FCLM volume delivered to the USPS will have been run through Fast Forward and will therefore avoid most all forwarding costs to the USPS. In addition to this 25% or more of total worksharing FCLM volume which I believe will be processed through Fast Forward on or after March 31, 1998, and therefore be free of most all forwarding costs to the USPS, the remaining percentage of

worksharing FCLM will have complied with other move update tools such as Address Correction Endorsement ("ACE"), ACS or NCOA. Although such move update procedures other than Fast Forward do not avoid the need of the USPS to forward an UAA the first time, such move update procedures should result in additional substantial reductions in the number of mail pieces which need to be forwarded by the USPS.

Therefore, based upon my calculation that at least 25% of worksharing FCLM volume will be covered by Fast Forward, I can make a very conservative estimate that the USPS mail forwarding costs will be eliminated by at least this same 25%, since in addition to the elimination of most all forwarding costs of mail covered by Fast Forward, that portion of worksharing FCLM which is not covered by Fast Forward will still be covered by ACE, ACS or NCOA which should result in additional savings to the USPS in the form of further reduced mail forwarding costs.

IV. Additional Unrecognized Cost Savings Of Worksharing FCLM.

Although I understand that the USPS methodology for measuring cost avoidance of worksharing FCLM does not consider such costs savings, I believe it important to again remind the Commission that presort bureaus and other worksharing FCLM mailers perform the following functions which significantly reduce USPS costs: facing, culling, cancelling, and banding and sleeving of trays.

In addition, I think that the Commission should continue to recognize that the worksharing FCLM rate should reflect the important role which worksharing mailers play in the USPS system. I estimate that the floor space utilized by NAPM members for their worksharing operations is in excess of 2.5 million square feet; and I estimate that members of NAPM have

1 invested in and devote approximately 300 MLOCRs, in addition to other costly equipment such
2 as BCRs and RVEs, to participate in the USPS worksharing FCLM program. Presumably, those
3 worksharing FCLM mailers other than NAPM members devote a comparable amount of work
4 space and automated equipment to performing their worksharing functions. It seems highly
5 likely that NAPM members and other worksharing FCLM mailers have procured their plant
6 space in a less costly manner than could have the USPS. Furthermore, the sheer size of the
7 amount of physical plant and equipment devoted by mailers to the USPS worksharing program
8 makes it appropriate for the Commission to consider the positive value of this contribution in
9 determining whether to adopt a conservative or more expansive measure of cost avoidance of
10 worksharing FCLM. In particular, as it has in the past, the Commission should consider the total
11 inability of the USPS to handle worksharing FCLM if it were to revert from worksharing mailers
12 to the USPS, as a reason to adopt a less conservative and more expansive measurement of
13 worksharing FCLM cost avoidance, and to therefore establish larger incentives for worksharing
14 FCLM.
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16 V. Fast Forward License Fees.
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18 I note that the USPS has not included in this case any benefit to the USPS in the form of
19 Fast Forward license fees. USPS witness O'Hara in response to ABA, EEI & NAPM/USPS-T30-
20 1 stated that Fast Forward license fees were not specifically included in test year revenues, and
21 provided an informal estimate that such fees in Fiscal Year 1998 would be $3,000,000. Initially,
22 it does not seem fair to me that this $3,000,000 fee is not included in the USPS proposal within
23 that revenue derived by the USPS from worksharing FCLM. Also of concern to me is the fact

that the USPS has unilaterally established such license fee outside the context of a postal rate proceeding where parties would have the opportunity to comment on the fee and the Commission would play a valuable role in determining whether any fee at all should be charged for the Fast Forward service.

VI. Flats And The Heavyweight Presort Incentive.

The USPS has proposed to eliminate the "heavyweight" incentive of 4.6¢ per piece of worksharing first class mail weighing more than two ounces. The USPS provides no study to justify the elimination of this long-standing incentive. Rather, USPS witness Fronk summarily states that the heavyweight incentive should be eliminated because: 1) heavyweight mail has benefitted since 1990 from an increased gap between the first ounce rate and the additional ounce rate of first class mail, and 2) elimination of the incentive would "simplify the rate structure."

ABA, EEI & NAPM witness James Clifton has filed testimony in this proceeding unequivocally demonstrating that the incentives proposed by the USPS for worksharing FCLM are significantly understated. The elimination of the first class worksharing heavyweight incentive, when coupled with the significantly understated incentives proposed by the USPS for worksharing FCLM, results in unfair treatment of first class worksharing mailers and is damaging to the very worksharing program which is so vital to the well being of the USPS.

Furthermore, the elimination of the heavyweight incentive for first class worksharing mail is particularly damaging to the ability of the USPS to attract barcoded first class flats. The cost savings to the USPS from barcoded flats are substantial and are grossly in excess of the incentives offered by the USPS for barcoded flats. In particular, USPS witness Daniel at Exhibit

USPS-29C shows a difference in total mail processing and delivery costs of first class single piece flats and first class basic flats of over 9¢ and a difference in total mail processing and delivery costs of first class single piece flats and first class automated 3/5 digit flats of over 23¢. Notwithstanding this staggering level of cost avoidance, the USPS proposes only a 3¢ incentive for first class automated basic flats and a 5¢ incentive for first class automated 3/5 digit flats. In MC95-1, the USPS attempted to justify low incentives for first class automated flats by arguing that it did not utilize the barcodes on the flats. However, the USPS is now enhancing its automation equipment so that it can place barcoded flats on equipment which will read barcodes.

In light of the tremendous cost savings to be recognized by the USPS from receiving barcoded flats, as evidenced by testimony of USPS witness Daniel, I urge the Commission to recommend the following actions which would increase the volume of the barcoded first class flats received by the Postal Service, thereby enabling the Postal Service to benefit from substantial cost savings:

1. Retain the 4.6¢ heavyweight incentive which is so important to worksharing mailers delivering flats to the USPS;
2. Increase incentives for first class automated flats to a level which passes through a much more substantial portion of the cost savings enjoyed by the USPS from such automated flats; and
3. Drop the 5 digit requirement for the second tier of the first class automated flats rate category, so that such category is simply for an automated 3 digit flat.

VII. Automated FCLM Rate Category Rates Should Be Structured To Maximize The Volume Of Automated 3 Digit And 5 Digit FCLM Relative To Automated Basic FCLM.

In MC95-1 the USPS relied on its cost studies to propose a FCLM automated rate category structure which would have established the incentive for automated 3 digit FCLM at 2.0¢ above the incentive for automated basic FCLM (i.e., 7.0¢ - 5.0¢). Although the Commission ultimately recommended a higher incentive for automated basic FCLM then was recommended by the USPS, NAPM was disappointed that the Commission did so at the expense of automated 3 digit FCLM, thereby narrowing the difference between automated basic FCLM and automated 3 digit FCLM to 0.7¢ (i.e., 6.6¢ - 5.9¢).

Although I believe that the worksharing FCLM incentives proposed by the USPS in this case are understated across the board, I was pleased to see the USPS proposal would at least increase the gap between automated basic FCLM and automated 3 digit FCLM to 1.0¢ (i.e., 6.5¢ - 5.5¢).

Automated basic FCLM is still a relatively immature and unproven rate category. The fact that the eligibility criteria for automated basic FCLM allow a sort to a mixed AADC means that the USPS does not bypass processing operations at the origin USPS site for such mail. USPS witness Fronk has stated in his testimony that the most important automated FCLM rate category to the USPS worksharing program is automated 3 digit FCLM. Accordingly, I urge the Commission to recommend incentives for automated FCLM rate categories which will encourage a high volume of automated 3 and 5 digit FCLM relative to automated basic FCLM.

In particular, any automated FCLM rate category structure should have at least a 1.0¢ increment between automated basic FCLM and automated 3 digit FCLM.

CERTIFICATE OF SERVICE

I hereby certify that I have this 30th day of December, 1997, 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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