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U.S. DEPARTMENT OF JUSTICE

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

Postal Rate and Fee Changes, 1997

DOCKET NO. R97-1

REBUTTAL TESTIMONY
OF
ROBERT J. SHEEHAN
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Robert J. Sheehan. I am the District Manager, Customer
3 Services and Sales, for the Atlanta, Georgia District of the Southeast Area of the
4 United States Postal Service. In this capacity, I have overall responsibility for all
5 Postal Service operations in an area which includes nearly 5 million residents
6 and covers approximately 19,000 square miles. The Atlanta District employs
7 more than 15,000 people at its three major plants, 236 post offices and 82
8 stations.

9 From July 1994 to September 1996, I served as Manager of In-Plant
10 Operations at USPS Headquarters in Washington, DC. My duties included
11 system-wide responsibility for establishing operations policy and programs within
12 the processing and distribution function and developing strategic plans to
13 improve operational efficiencies for the national network of Airport Mail Centers,
14 Bulk Mail Centers, and Processing and Distribution Centers.

15 With the reorganization of 1992, I became Area Manager of Processing
16 and Distribution for the Allegheny Area. In that position I was responsible for all
17 mail processing facilities in the states of Pennsylvania, Ohio, Delaware and
18 southern New Jersey, an area encompassing more than 27 million people. The
19 area processing and distribution network consisted of 40 processing and
20 distribution centers, 3 bulk mail centers and 7 airport mail centers.

21 In January 1990, I assumed the position of Regional Director of Planning,
22 Northeast Region (NER), Windsor, CT. There, I was responsible for the
23 integration of the automation program within the NER. Additionally, I was
24 responsible for the strategic planning function for the Region.

25 From June 1987 through August 1990, I managed the NER's District
26 Sales Staff of 140 Account Representatives as Regional Manager, Commercial
27 Accounts.

28 As Postmaster and Sectional Center Manager, Orlando, FL, I was directly
29 responsible for overall postal operations of a large, complex, and expanding

1 center consisting of 73 associate offices with 4,900 employees. Prior to June
2 1987, I was Postmaster and Sectional Center Manager, Greensboro, NC.

3 In April 1978, I became Sectional Center Director, Customer Service,
4 Albany, NY, and was responsible for all delivery, retails sales and customer
5 service operations for over 200 postal facilities. As Customer Engineer at the
6 Springfield BMC, I was the primary point of contact for over 75 major bulk mail
7 customers in a seven state area from 1975 to 1978.

8 I started with the United States Postal Service in 1968 as a temporary
9 distribution clerk/city letter carrier. I earned a Bachelor's Degree in Business
10 Administration from the University of Portland. I later went on to achieve an MBA
11 from Suffolk University and have attended the Harvard University Program for
12 Management Development.

1 **I. PURPOSE OF TESTIMONY**

2 The first purpose of my rebuttal testimony is to respond to the Office of the
3 Consumer Advocate's (OCA) Courtesy Envelope Mail (CEM) proposal set forth
4 in witness Willette's testimony (OCA-T-400). The second purpose is to address
5 the continuing need for the First-Class Mail nonstandard surcharge, an issue
6 which was raised by Nashua, District, Mystic and Seattle Filmworks witness
7 Haldi (NDMS-T-1). My testimony is confined to the managerial perspective
8 related to these two issues.

9

10 **II. CEM IS INCONSISTENT WITH IMPROVED PROCESSING TECHNOLOGY**
11 **AND IS A STEP BACKWARD**

12 The OCA's CEM proposal is inconsistent with the Postal Service's
13 automation and organizational goals. The Postal Service has spent hundreds of
14 millions of dollars to automate letter operations during the past five years. This
15 has drastically reduced the human element from the sortation process. The
16 opportunity for individual letters to be touched by human hands before reaching
17 the delivery unit is constantly diminishing as Delivery Point Sequencing (DPS)
18 volumes continue to increase. As I will explain later in my testimony, a CEM mail
19 processing environment would require additional staffing to manually address
20 potential short paid volumes.¹

21 The testimony of rebuttal witness Miller (USPS-RT-17) demonstrates that
22 due to our ongoing technological advances in letter sortation equipment and
23 software, mail processing costs for the various types of single-piece First-Class
24 Mail letters are already converging and will continue to do so.² With barcodes
25 placed on hand-addressed letters through Remote Bar Code System (RBCS)
26 processing and the future of image recognition software constantly improving,
27 even hand-addressed envelopes can stay in the automated mail stream from

¹ The costs associated with this additional staffing are estimated by USPS rebuttal witness Miller (USPS-RT-17 at 23).

² USPS-RT-17 at 29.

1 cancellation to carrier. Given these changes in mail processing technology
2 which have occurred since CEM was first proposed in Docket No. R87-1, the
3 Commission should consider whether CEM is an idea whose time has come and
4 gone.

5
6 **III. EDUCATION RELATED TO SIMPLE POSTAL CHANGES CAN PRESENT**
7 **SIGNIFICANT CHALLENGES**

8 OCA witness Willette portrays CEM as a “very simple concept.”³ In fact,
9 she dismisses the potential problems that the Postal Service may face in
10 educating consumers by making only passing comments as to how consumers
11 will be educated about this “simple concept.” At Tr. 21/10687, beginning at line
12 16, she casually assumes that “the Postal Service also can educate consumers
13 directly in the same way it informs them about single-piece First Class postage
14 requirements, and variations thereof (such as the additional ounce rate, the
15 nonstandard surcharge, and the single-piece card rate).” At Tr. 21/10689, lines
16 6-7, she mentions that the Postal Service “might also wish to standardize the
17 CEM message to be imprinted as part of its overall educational efforts.” Also,
18 she notes that some envelope providers may elect to advise their customers
19 about a envelope’s eligibility for the discounted CEM postage rate.⁴

20 Historically, when the USPS Board of Governors announces the
21 implementation of new rates arising from an omnibus rate case, an important
22 objective of postal management is to ensure that household mailers are aware of
23 the changes that will affect them most. At the local level, postal managers
24 educate customers through a variety of methods, including lobby displays in post
25 offices and postal customer councils. At the national and local levels, the Postal
26 Service also provides considerable information to television, radio, and daily print
27 media outlets in order to more broadly disseminate information about the various

³ Tr. 21/10688 at line 8.

⁴ Tr. 21/10695 at lines 11-13.

1 rate and classification changes to the general public. Nevertheless, the media
2 tends to focus its reporting on the single-piece First-Class Mail rate. With some
3 exceptions, anything else is often only partially or incompletely reported. If CEM
4 were approved by the Board of Governors for implementation, the Postal Service
5 would have to undertake considerable effort to minimize the extent to which
6 news reports about “the new bill payer’s rate” created confusion among the
7 general public regarding what pieces actually would qualify for CEM. As reliable
8 as the general media are in reporting that the basic rate has increased to 25 or
9 29 or 32 cents, I am not confident that television, radio, and daily print media
10 news outlets competing for the attention of viewers, listeners, and readers will
11 dwell on the “ins and outs” of Facing Identification Marks (FIMs), barcodes, and
12 other indicia markings.

13 Witness Willette’s opinion that educating the consumer on CEM will not be
14 too difficult conflicts with my experiences in trying to educate consumers about
15 seemingly simple postal related changes.

16 CEM would require the Postal Service to conduct a massive educational
17 campaign for both its customers and employees, beyond that which ordinarily
18 accompanies a change in rates. It is likely that a customer campaign regarding
19 CEM will require an unprecedented level of communication in terms of detail and
20 frequency. Of course, all of this comes at a significant cost.⁵ Witness Miller
21 (USPS-RT-17) addresses the educational approaches and costs that would be
22 incurred by such a campaign.

23 In my own experience, similar educational efforts that come to mind
24 involve the blanket notification to local postal customers regarding either a
25 change to 911-style addressing or a ZIP Code split. When it is necessary for
26 customers’ addresses to change, the information is frequently provided to them
27 by a variety of methods, such as paid advertisements in newspapers and on
28 radio and TV.

⁵ Witness Miller provides a cost estimate USPS-RT-17 at 18.

1 In instances where the address change is in response to the
2 implementation of a 911 emergency response system, notice is usually provided
3 to each residence and business by letter, since the change is specific to their
4 physical address, as opposed to a ZIP Code split that simultaneously has an
5 impact on multiple addresses. In addition, a county or municipal government
6 agency also sends out a preliminary letter that advises affected postal customers
7 of their address changes and instructs them to refrain from using their new
8 physical addresses as their new mailing address until they receive formal
9 notification from the Postal Service, otherwise their mail could be delayed or
10 returned to sender. As straightforward as this precaution may seem, it is always
11 the case that many consumers either overlook or misunderstand or otherwise fail
12 to comply with the notice and begin using their new address before receiving a
13 “green light” from the Postal Service, with predictable consequences.

14 I also have seen the exact opposite occur when postal customers’
15 addresses change because of a ZIP code split. Instead of customers using the
16 new addresses prematurely, many do not convert to their new addresses within
17 the one-year grace period. As a result, mail continues to be directed to the old
18 addresses long after the changes should have been made. Although
19 correspondence about the ramifications of not adhering to the conversion date
20 for their new addresses was sent to the customer, again it is apparently either
21 overlooked or misunderstood.

22 Postal customers often have difficulty understanding when they should
23 implement changes to their addresses, despite being provided with very specific
24 and detailed instructions. As a postal manager, I find these situations frustrating,
25 but I understand why they occur. Over the years, I have had the privilege of
26 interacting directly with countless household mailers of various education and
27 income levels, almost all of whom have one thing in common – a preoccupation
28 in an increasingly fast-paced world with things that are not related to the Postal
29 Service. Being a postal customer is not a dominant activity in the lives of most
30 people. There are a lot of demands on their attention. On the other hand, my

1 job responsibilities fully immerse me in postal matters. The same is probably
2 true of the hundred or so people who may read my testimony and the thousands
3 of postal employees around the nation. But aside from technologically
4 sophisticated mailroom personnel and others in the mailing industry, the rest of
5 the nation tends not to focus on technical postal matters, even things that those
6 of us "in-the-know" believe to be very simple and straightforward. With other
7 things on their minds, the general public tends to prefer that we keep things
8 simple, and they prefer to avoid having to deal with change in their basic
9 relationship with the Postal Service. Notwithstanding the appeal that a discount
10 may have for some, I am certain that in a CEM environment, many of my
11 customers will either avoid or not want to determine which of the multiple
12 envelopes that they receive in a given period can be mailed at the discounted
13 CEM rate, even if the face of qualifying envelopes contained what I thought was
14 a clear CEM indicia.

15 The implications of presenting the American public with CEM are of
16 serious concern to me. No matter how much time or money we spend educating
17 household customers about this "simple concept," my experience tells me that
18 the message will not get through to everyone or that some part of the message
19 will be misunderstood. Accordingly, there most likely will be some number of
20 customers who will interpret CEM as a new "bill paying rate" and will, therefore,
21 apply the discounted rate to all reply envelopes or bill payments, whether or not
22 they are CEM-eligible. The potential for customers to misunderstand or misuse
23 CEM is not insignificant, and my experience from previous attempts to educate
24 household customers confirms that nothing is as simple as it seems.

25

26 **IV. SHORT PAID ENFORCEMENT WOULD HAVE TO BE MODIFIED AND**
27 **WOULD PRESENT A DILEMMA**

28 In the current mail processing environment, trying to find a technological
29 alternative to adding clerks for identification of postage due volumes has proven
30 difficult. Our letter mail processing equipment and software are unable to

1 determine the specific amount of postage paid by each piece as it goes through
2 our systems. Implementation of CEM would require that the human element
3 would have to be employed more extensively to address short paid mail
4 concerns, despite our efforts to move away from this approach.

5 Current policy for handling short paid mail has the carrier or box clerk
6 requesting the postage short-fall from the addressee. If short paid mail is in
7 DPS, the likelihood of capturing it is greatly reduced, since no one sees the
8 piece until it gets to the carrier. Today, carriers do not see their DPS letters until
9 they are on the street. If the piece has no postage, it is returned to the sender.
10 The current short paid mail policy focuses at destination and does not address
11 how to notify or educate the originator of the mail piece that actually used the
12 wrong postage. Therefore, in a CEM environment, the policy for handling short-
13 paid mail would have to be revisited and most probably modified to address
14 revenue short-falls primarily at origin. This would be a significant change to
15 current policy. A description of this approach and the estimated costs are
16 reflected in the testimony of witness Miller (USPS-RT-17).

17 But shifting CEM short paid enforcement away from delivery units to mail
18 origin operations is not a complete answer. Short paid mail will still get through
19 and concentrations of CEM postage on non-qualified mail could be noticed
20 downstream, particularly on courtesy reply envelopes which have not converted
21 to CEM. Local managers would have to consider employing clerks at delivery
22 units where non-CEM remittance mail is concentrated to check for misapplication
23 of CEM postage. There are 28 major postal remittance mail centers across the
24 country that would be greatly impacted. For example, Atlanta handles two
25 million pieces of remittance mail daily for 2000 box holders. If such verification
26 were to be added at major remittance centers, it could increase the potential for
27 ill will from our major remittance recipients anxious to capture the float on
28 incoming remittances. Managers might elect to seek postage due from
29 recipients who would prefer that the burden of short payment be shifted to the
30 senders. Managers might elect to avoid friction with valuable remittance

1 recipients by not pressing for short paid collections or not returning the mail to
2 senders, crediting them with a “good faith” misapplication of CEM postage to an
3 “almost qualified” mail piece.

4 On the other hand, if managers take the same lax attitude to short
5 payment resulting from the application of CEM postage to “obviously unqualified”
6 greeting cards and other correspondence, it increases the likelihood that the
7 public will perceive that it really does not matter whether they pay the correct
8 postage. If managers strictly police short payment on greeting cards to reinforce
9 correct mailing practices, it will be necessary to accord the same treatment to
10 “almost qualified” remittances, putting pressure on the Postal Service to
11 supplement detection efforts at origin with additional efforts at destination.
12 These are not simple choices to make. They are not without cost.⁶

14 **V. SHORT PAID ENFORCEMENT COULD UNDERMINE OUR CUSTOMER** 15 **RELATIONS**

16 I shudder to think of the adverse customer relations consequences that
17 would stem from returning to sender “almost CEM-qualified” mortgage payments
18 because the senders used the wrong denomination stamp and applied
19 insufficient postage to unqualified courtesy reply envelopes, particularly if the
20 return of a payment caused a customer to incur a late payment fee. Given that
21 the use of payment books and peel-off labels for payment, as opposed to
22 courtesy envelopes, is relatively common in the mortgage industry, this is not a
23 far-fetched example. There is significant potential for a degradation in the Postal
24 Service’s relationship with the public after we have worked so hard to improve it.
25 The Customer Satisfaction Index (CSI) and Business CSI would certainly take
26 down-turns because of increased confusion and difficulty-of-use. CEM is also
27 contrary to another one of our performance indicators, Ease-of-Use, which is
28 measured by different size customers.

⁶ See Exhibit USPS-RT-17D.

1 Some of the remittance processing centers that are located here in
2 Atlanta have already mentioned to me that they have major concerns about
3 implementing CEM. There is concern about impacts on cash flow to these
4 businesses if any delay is experienced in receiving these payments.

5 One of my rudimentary concerns about CEM is that our customers
6 apparently prefer the status quo. The simple one-stamp method for sending and
7 receiving mail has been in place for decades. Therefore, it would not be much of
8 a surprise to me if the Postal Service became the target of "if it ain't broke, don't
9 fix it" mockery if CEM were implemented. Coming from Atlanta, a comparison
10 that comes to my mind is when Coca-Cola came out with its "New Coke" formula.
11 Consumers did not appreciate a radical change in their favorite soft drink being
12 foisted upon them and the subsequent public backlash forced Coca-Cola to bring
13 back the original *Coke*.

14
15 **VI. THE NONSTANDARD SURCHARGE IS IMPERATIVE TO ACHIEVING OUR**
16 **AUTOMATION GOALS**

17 NDMS Witness Haldi, at Tr. 24/12913, lines 3-5, states "Automatability is
18 not static. While the DMM definition of 'non-standard' may not have changed for
19 many years, the capabilities of mail processing technology have changed
20 dramatically." What Witness Haldi fails to recognize is that this very same
21 equipment and any new equipment requirements are based on the current DMM
22 nonstandard mail piece definition. The definition is not obsolete, as witness
23 Haldi seems to suggest.

24 The nonstandard surcharge is applied to pieces weighing one ounce or
25 less that do not meet standard letter dimensions. The existing equipment
26 affected by the definition ranges from Advanced-Facer Canceler Systems
27 (AFCS), Optical Character Readers (OCR), Delivery Point Bar Code Sorters
28 (DBCS), Carrier Sequence Bar Code Sorters (CSBCS), Letter Mail Labeling
29 Machines (LMLM), various letter trays, tray racks, and tray transport equipment.
30 Length, height, width and aspect ratio all play a part in the machinability of a

1 piece. Any change to the length and height in the nonstandard definition would
2 have obvious impacts on stacker widths and sort channel heights on the letter
3 processing equipment. For example, given the extensive deployment of DBCSs
4 with 4 tiers of stackers, mail with greater length or height characteristics can not
5 be accommodated.

6 The width restriction is due to the increased potential for jams and a
7 reduction in throughput, again causing increased handling costs. In addition,
8 tight turns are required within the equipment and there is an increased potential
9 for missorts. With floor space at a premium, tight turning radii are required for
10 the belts transporting the mail through the equipment. In the OCR, belts provide
11 a "delay" so the OCR has sufficient time to interpret the address and access the
12 directory before it goes in front of the barcode printer. All of this occurs in a very
13 tight space within the machine. Thicker pieces can have problems making the
14 tight turns required and can jam the machine. Jams may involve the machine
15 being down for a couple minutes while maintenance or mail processing
16 personnel remove the piece(s) involved. This may result in damage to several
17 pieces that followed the thicker piece through the machine. Damaged pieces
18 also negatively impact customer relations.

19 If pieces are thicker than ¼", then there also is not enough tension
20 between the two belts for the following mail piece, since the gap between pieces
21 is so short. What occurs is jamming and missorts, because tracking is lost for
22 the following piece since it can shift between the belts.

23 The aspect ratio comes into play when pieces are traveling through the
24 machine at 8-12 pieces per second. This can cause square pieces to "tumble,"
25 resulting in either: (1) a skewed barcode being applied that will not be verified or
26 read on subsequent barcode equipment, or (2) a good barcode that will go
27 through subsequent barcode readers skewed, causing the piece to be rejected.
28 Again, such pieces require handling in more costly manual operations.

29 Several approaches are used to pull nonstandard size pieces out of the
30 automated mail stream. Letters that go to an AFCS must first pass through a

1 Dual Pass Rough Cull machine that pulls out pieces and bundles that are too
2 thick. The feed channel to the AFCS pulls out pieces that are too tall. Operators
3 on the AFCSs, OCRs and BCSs attempt to pull out nonstandard pieces on the
4 feed-end of the equipment. Pieces that are too tall, too long or too thick are fairly
5 easy to recognize. These identified pieces are placed into a tray and designated
6 to go to a manual operation. Aspect ratio is much harder to detect by the
7 operators, especially when loading and jogging mail at over one tray per minute
8 on automation.

9 Pieces that are over the height, length or thickness maximums are
10 considered flats or parcels, not only for mail processing but also for delivery
11 purposes. City carriers are provided more time for casing and pull-down of flats
12 and parcels than for letters. Rural carriers are paid a higher piece rate for flats
13 and parcels than for letters. All of this results in greater costs for the Postal
14 Service.

15 At Tr. 24/12884 beginning at line 13, witness Haldi's discusses an
16 experiment where he mailed 10 nonstandard, square greeting cards to himself to
17 see if the delivered cards would evidence any processing problems. The cards
18 are contained in LR-NDMS-1.

19 Of the nine cards delivered, one had two barcodes applied -- one barcode
20 appeared horizontally and one barcode appeared vertically. This indicates that
21 the square card tumbled during processing, as discussed above. The remaining
22 cards show no evidence of processing problems.

23 Witness Haldi's anecdotal evidence does suggest that the Postal Service
24 might want to re-evaluate the automatability of pieces with low aspect ratios.
25 However, any informative analysis would need to test the full range of
26 nonstandard criteria -- height, length, thickness and aspect ratio -- and not be
27 limited to one facet of the definition, as witness Haldi has done.

28 Other countries have required standardization of mail pieces to a much
29 greater degree than the Postal Service would ever consider. We have attempted
30 to provide a low-cost method of handling for a wide range of sizes. Therefore,

1 the nonstandard surcharge continues to be a viable incentive for mailers to
2 provide us with letters that are compatible with our processing equipment.

3

4 **VII. CONCLUSION**

5 Regarding CEM, OCA witness Willette suggests that the Commission
6 should just summarily dismiss concerns that might be raised by the Postal
7 Service. Tr. 21/10703, at lines 11-14. I trust that the Commission, despite our
8 past differences regarding previous CEM proposals, will seriously consider
9 postal management's reservations expressed in this case. I also trust that the
10 Commission will continue to recognize the importance of the First-Class Mail
11 nonstandard surcharge.