DOCKET SECTION

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

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

NOTICE OF THE UNITED STATES POSTAL SERVICE CONCERNING ERRATA TO THE REBUTTAL TESTIMONY OF WITNESS MILLER (USPS-RT-17)

The United States Postal Service hereby files these errata to the rebuttal testimony of witness Miller (USPS-RT-17.

A list of each of the changes is attached, along with corrected testimony pages.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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USPS-RT-17: changes to text 3/13/98

Page	Line	Change
12	8	Add "the" after "with"
		Add "of" after "processing"
	11	Change "what" to "which"
	13	Delete "The"
		Change "preference" to "Preferences"
16	5	Change $ 1.32 to $ 1.58
	6	Change $ 1.74 to $ 2.09
	7	Change $ 1.86 to $ 2.23
	8	Change $ 2.37 to $ 2.84
	9	Change $ 2.73 to $ 3.28
17	15	Change "R87-1, R90-1, and MC95-1" to "R87-1 and R90-1" and delete footnote 25. [See note below]
19	8	Change "supervisor" to "supervisors"
	18	Insert "to" before "CEM"
20	22	Change "9,058" to "9,060"
	24	Delete "(74 million transactions annually)" and delete footnote 33. [See note below]
21	11	Change "would" to "could"
	13	Change "would" to "could"

NOTE: Actual deletion of footnotes 25 and 33 (on pages 17 and 20, respectively) on the electronic version of USPS-RT-17 causes shifts in page breaks and relocation of text to different pages. To avoid these effects and limit the number of revised pages to those on which substantive changes actually occur, footnote numbers 25 and 33 are being left in the text of the revised pages17 and 20. The deleted footnote text at the bottom of each revised pages has been replaced with the following notice: "Footnote deleted -3/13/98."

USPS-RT-17: changes to exhibits 3/13/98

Exhibit-Page	Line	Change
A-1	29	Delete the extra period after "e " in "e..g."
A-2	3	Delete the "a" after "of"
B-2	7	Change "cost" to "costs" and change "20" to "19"
G-1	3	Insert ")" after "prebarcoded"
	5	Delete ")" after "mail" and change "of" to "or"
G-2	20	Change "modes" to "models"
H-1	28-30	Delete these lines

IV. THE PUBLIC DOES NOT WANT A TWO-STAMP SYSTEM

Question: *"What role do you think the preference of households should play in the determination by the Commission to consider a two stamp system for First Class Mail letters?"*

OCA Witness Willette: *"...It should probably play some role. We have based our CEM proposal on the cost savings associated with the processing of that mail...I wouldn't want the Commission to ignore that."*

Question: *"You wouldn't want the Commission to ignore which?"*

OCA Witness Willette: *"Preferences of mailers."*

(Docket No. R97-1, Tr. 21/10774-10775)

Despite her comments that household preferences should be considered, witness Willette admits that the OCA has not conducted any market research in the current rate case which indicates whether the mailing public wants a two-stamp system.[15]

A. PAST MARKET RESEARCH SHOWS A LACK OF SUPPORT

From Docket Nos. R87-1, R90-1, and MC95-1 to the present, one element has been missing from each OCA sponsorship of CEM: the OCA has never directly asked the public whether they want it. In fact, every study conducted thus far contains data which indicate there is a decided lack of support for CEM.

Docket No. R87-1: In this case, the OCA did not use household consumer support as a platform for its initial CEM proposal. The OCA attempted to justify that proposal as a means to provide rate relief to households, to increase barcoded mail volumes, and to prevent future electronic diversion.[16]

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[15] Docket No. R97-1, Tr. 21/10751.
[16] Docket No. R87-1, Tr. 20/14968-72.

TABLE 3: AVERAGE REPLY ENVELOPES MAILED BY INCOME LEVEL

Question P2: Income Level	Avg. No. CRM Mailed Per Mo.	Average Annual Savings
< $15K	4.4	$ 1.58
$15K-$25K	5.8	$ 2.09
$25K-$35K	6.2	$ 2.23
$35K-$50K	7.9	$ 2.84
> $50K	9.1	$ 3.28

The Possibility Of Other Rate Increases Affects System Preference: It is noteworthy that the preference question was asked a second time of those respondents who said they preferred a two-stamp system in Question P9. They were asked if they still wanted two stamps if such a system contributed, to some extent, to an increase in the rates for regular First-Class Mail letters. After being informed of a possible "push-up" elsewhere, 66 percent of those respondents that originally had preferred a two-stamp system switched to the one-stamp system.

The impact of the two preference questions is significant. When the respondents who switched from a two-stamp to a one-stamp system in question 10 are combined with those respondents who preferred a one-stamp system initially in question 9, the figures show that 86 percent of the total respondents prefer a one-stamp system when they are made aware that their rates could increase elsewhere.

TABLE 4: COMBINED RESULTS FROM PREFERENCE QUESTIONS

Combined Questions P9/10: Household Preference
86% One-Stamp System
12% Two-Stamp System
2% Don't Know

The Postal Service agrees with the OCA that household preference should be considered in regard to CEM. Household consumers have spoken through this survey and the overwhelming majority prefer a one-stamp system. These survey results clearly indicate that CEM is not a desirable classification from the point of view of the user, within the meaning of U.S.C. §3623(c)(5).

V. THE CEM REVENUE LOSS WOULD HAVE TO BE RECOVERED

"I have not taken a formal position on the recovery of the $219 million."
—OCA Witness Willette (Docket No. R97-1, Tr. 21/10735)

OCA witness Sherman contends that PRM could mislead household consumers into thinking that reply mail service is free.[22] That same argument could also be applied to the OCA's proposed CEM rate, since the revenue loss associated with that rate would have to be recovered elsewhere. That loss could be recouped in a variety of ways, but, one way or another, consumers would ultimately shoulder the burden. And it has already been demonstrated through market research that when households are made aware of that fact, the overwhelming majority prefer a one-stamp system.

The revenue loss issue has been presented as a rebuttal argument in Docket Nos. R87-1[23] and R90-1[24].[25] In each docket, the OCA has avoided taking a stand as to how the losses should be recovered. In Docket No. R97-1, witness Willette concludes that, "At 30 cents per piece, CEM mail will travel under a rate that is more closely aligned with costs than consumers' current alternative, the First Class single-piece rate."[26] If aligning rates with costs were truly a cornerstone of CEM, the OCA's proposal would include a provision that recommends a higher single piece rate for letters that cost more to process (e.g., handwritten). Such a provision has not been included in witness Willette's proposal.

CEM would not create any new cost benefits that would, in any way, offset the corresponding revenue loss. In fact, the Postal Service would incur additional costs in order to implement and maintain a two-stamp system. Those costs would also have to be recovered.

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[22] Docket No. R97-1, Tr. 26/13763.
[23] Docket No. R87-1, USPS-RT-9, pages 13-14.
[24] Docket No. R90-1, Tr. 39/21066.
[25] Footnote Deleted - 3/13/98.
[26] Docket No. R97-1, Tr. 21/10714 at 2-4.

The education process would also involve additional costs that cannot easily be quantified. For example, some time would have to be spent explaining CEM to the postal workforce. All employees would have to know how CEM works and be able to answer customer inquiries. It would be especially important for employees who maintain regular customer contact (e.g., carriers and window service clerks) to be able to answer CEM questions. In addition, employees would have to be told how to identify short paid mail. Informal training on the workroom floor is currently provided using "stand up talks" that supervisors sometimes give to employees at the beginning of their shifts. Initially, these established "information sharing" sessions would be used for training. If problems were detected, however, a more intensive approach would have to be used and formal training would be required, generating additional systemwide expenses.

To some degree, the magnitude of internal training and all other education efforts would be directly related to the success of the implementation plan. First, an implementation date would have to be determined. Second, all qualifying CEM mail pieces would have to be marked properly by the implementation date. Any non-compliance would hamper education efforts.

As I indicated earlier, it is doubtful that all CRM would convert to CEM. In that case, it would always be difficult for carriers and/or window service clerks to explain to customers why a CEM stamp could be placed on one prebarcoded, FIM A mail piece, but could not be placed on a similar mail piece. The explanation that mail pieces must be properly marked would be the technically correct answer, but a technically correct answer may not undo the damage caused by negative customer perceptions.

[28] Exhibit USPS-RT-17B, page 1.

B. WINDOW SERVICE TRANSACTIONS WOULD INCREASE

The addition of a second basic single-piece First Class Mail stamp for letters would increase the number of stamp sales transactions performed by postal window clerks. The costs associated with this increase are estimated to be $17 million annually.[29]

Past market research has indicated that household consumers would need to make additional trips to the post office in a CEM environment. In Docket No. MC95-1, Library Reference MCR-88, 42.6% of the survey respondents indicated that additional trips would be required. More trips would translate into increased window service costs. These costs are summarized in Exhibit USPS-RT-17C.

In assessing the impact that CEM would have on window service operations, it is also necessary to discuss costs that cannot easily be quantified. One such cost would involve the possible diversion of stamps sales transactions from alternative sources such as consignment outlets and ATMs to postal retail outlets. Many households currently purchase stamps through these alternative sources (73 million transactions annually)[30] and would have to make additional trips to the post office, to the extent that their stamp demands were not satisfied alternatively. Additional workhours would be required to handle transactions that come back to post offices. Each window service stamp transaction currently costs the Postal Service 39 cents.[31]

In addition, some stamp sales transactions would be diverted back to postal window clerks from vending machines. Currently, 9,060 (24 percent) of the Postal Service's total 37,631 vending machines are Booklet Vending Machines (BVM).[32] These machines offer one item -- stamp booklets.[33] They cannot hold more than one type of booklet. Some retail lobbies contain more than one BVM and could theoretically carry both stamps. Other lobbies could not.

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[29] Exhibit USPS-RT-17C, page 1.
[30] Estimated FY 1997 stamp sales transactions managed by Amplex Corporation, the administrator of the USPS stamps on consignment program.
[31] Exhibit USPS-RT-17C, page 1.
[32] Vending Equipment Service System, National Vending and Machine Report, Fiscal Year 1997.
[33] *Footnote Deleted - 3/13/98.*

Those with one BVM could only offer one type of stamp. Therefore, some customers who might have purchased their stamps using vending machines would end up purchasing stamps through a window clerk. This system would become further complicated at times when large volumes of greeting cards (e.g., the December holidays) would be sent by household consumers. BVMs that usually stocked CEM stamps would probably be changed to stock the full-rated single-piece stamp during these seasonal periods. As a result, the planning associated with stamp sales would become more complicated under CEM.

Finally, window service costs would also be affected by customer inquiries related to CEM (i.e., "when do I use each stamp?"). This fact would be especially obvious during CEM implementation. Each independent CEM inquiry transaction could cost the Postal Service 67 cents.[34] Each CEM inquiry transaction that was part of another transaction (e.g., stamp sales) could cost the Postal Service 35 cents.[35]

Overall, the implementation of the CEM proposal would increase window transaction costs. These costs would decrease somewhat in the long term. Initially, however, the CEM proposal could have a dramatic impact on window service as consumers adjusted to the new system.

C. REVENUE PROTECTION COSTS WOULD BE SIGNIFICANT

With the current one-stamp system, it is uncommon for the public to underpay postage for one-ounce letters. If CEM were implemented, that situation would change. The opportunity for confusion would be great and the percentage of short paid mail would increase. The magnitude of that increase, however, is not known. As a result, revenue protection costs (Exhibit USPS-RT-17D) were calculated for various short paid mail percentages.[36] These costs would be significant. For example, if the short paid mail percentage increased from the current 0.06 percent to 2 percent, the Postal

[34] Exhibit USPS-RT-17C, page 2.
[35] Exhibit USPS-RT-17C, page 3.

EXHIBIT USPS-RT-17A: REPLY MAIL PIECE VARIATION

This exhibit describes the mail piece variation that currently exists within the First-Class Courtesy Reply Mail (CRM) stream. Reply mail pieces can be found in a variety of shapes, sizes, and colors. Some envelopes contain preprinted addresses and barcodes, while other mail pieces uses envelope windows that expose the delivery address and/or barcode. In addition, envelope windows can be found in a variety of sizes, shapes and locations. Even the markings within the postage affixation block vary a great deal. Some of these markings might simply say "Place Stamp Here," while others instruct the user that "The Post Office Will Not Deliver Without Proper Postage." In many different ways, the mail piece characteristics for prebarcoded, Facer Identification Mark (FIM) "A" reply envelopes vary a great deal.

Reply mail pieces are allowed to vary within limits because postal automation can still find and "read" the barcode that corresponds to the delivery address. Therefore, the use of "standardized" CRM designs is not necessary. In addition, many reply envelope providers use the envelope for reasons other than the simple enclosure of a remittance.

For example, many mailers use the envelope itself as an advertising medium. Department stores frequently use their envelopes to advertise products. Sweepstakes entries often include graphics that are designed to encourage the envelope user to apply. Many businesses also include their logos, mottoes, or other advertisements designed to promote the organization as a whole.

Other envelope providers might use the mail piece to provide instructions. As an example, some envelopes contain checklists designed to ensure that the reply envelope user has included the statement and check. In addition, many reply envelopes contain instructions about how to notify the envelope provider of an address change.

Finally, many providers also use specific envelope designs to enhance the efficiency of their remittance processing operations. For example, envelopes can be used to collect information from the employee that actually processes the remittance once it is received by the envelope provider (e.g., "For Official Use Only" blocks). Also, many mailers use window envelopes because it is possible to use one standard

envelope design when sending reply mail to multiple processing locations (e.g., the addresses on inserts, rather than the envelope itself, would be modified). Also, it is my understanding that the use of windows can assist processors because the remittance processing equipment in some locations can quickly sort the statements and checks because it is known where they are located relative to the front of the mail piece (assuming they were inserted correctly).

In order to analyze the extent to which reply envelopes vary, I conducted an analysis of FIM A mail at the Merrifield Processing and Distribution Center (P&DC) on Wednesday March 4, 1998.

This analysis involved the random sampling of FIM A mail pieces from all the Advanced Facer Canceler Systems (AFCS) at the Merrifield plant. A total of 1,280 pieces were sampled. This analysis was not statistically valid by any means, but did show that a wide variety of reply envelopes are currently distributed by businesses to their customers.

This mail was divided into six categories: 1.) preprinted envelopes, 2.) barcoded window envelopes, 3.) window envelopes with barcoded inserts, 4.) envelopes with barcoded labels, 5.) envelopes with no barcodes, and 6.) re-addressed reply envelopes.[1]

Preprinted Envelopes: A little less than 25% of the envelopes sampled contained both preprinted addresses and barcodes directly on the envelope. The addresses for these mail pieces were usually centrally located. These mail pieces exhibited a wider variety of fonts and font sizes in the address area compared to other envelope types. This variation was possible because the barcodes were always located in the barcode clear zone (lower right hand corner of the envelope) which a Bar Code Sorter (BCS) would scan first. Therefore, the specific address characteristics would not have an impact on mail piece readability. In addition, many preprinted envelopes also used the envelope itself to advertise (e.g., sweepstakes entries) and therefore contained graphics on many different sections of the mail piece. The

[1] See results on page 5.

EXHIBIT USPS-RT-17B: EDUCATION COSTS

Cohn & Wolfe Estimate: In order to properly educate consumers, assuming CEM were to be implemented, the United States Postal Service would have to conduct a multi-media campaign. In order to determine what the details and costs of such a campaign might be, the Postal Service requested that the public relations firm of Cohn & Wolfe estimate the costs required to educate the public about the CEM stamp using television, radio, and newspaper advertising. The schematic media plan provided by Cohn & Wolfe showed that those costs would be approximately $19 million.

Young Rubican Estimate: The Postal Service also requested two per-piece cost estimates from the public relations firm of Young Rubican. The first cost estimate was for printing a direct mailing that would be sent to every household and business in the United States. The second cost estimate was for printing posters that would be prominently displayed in postal retail lobbies. Both the direct mailing and the posters would be designed to explain CEM implementation to the general public.

EXHIBIT USPS-RT-17G: COST CONVERGENCE MODEL DESCRIPTIONS

This exhibit describes the single piece cost models that were created to support CEM rebuttal testimony. These models show that the mail processing costs for the four single piece mail streams (handwritten, machine printed, metered, and prebarcoded) are converging. In other words, the costs for processing handwritten, machine printed, and metered mail are approaching those for prebarcoded or "FIM" (Facer Identification Mark) mail. The model inputs, assumptions, and the specific models themselves will be discussed in this exhibit.

A. MODEL INPUTS

For the most part, the inputs to these models are the same as those used in other cost models in Docket No. R97-1. In some instances, data from Docket No. MC95-1 were used. For example, the models in R97-1 did not include Letter Sorting Machine (LSM) operations. Therefore, some LSM data from Docket No. MC95-1 were used. In addition, the density tables were recalculated to include the "DISP code 9" (firm mail) data to more accurately represent single piece mail flows.[1]

B. ASSUMPTIONS

The costs contained in these models should not be viewed as all-inclusive single costs. The models were created to demonstrate the impact that automation deployments and other technological improvements have had on single piece mail processing costs. I have attempted to show how the costs would be affected (in current terms) if we removed these improvements and reverted to earlier processing strategies.

Simplified Mail Flow: The models demonstrate the cost differences between the four mail streams as letters are processed through a large automated facility, or facilities in the case of non-local mail. In addition, the densities for Automated Area Distribution Center (AADC), Section Center Facility (SCF) and Incoming Primary operations were added together when flowing mail to what is labeled the "incoming

[1] See Exhibit USPS-RT-17H.

primary" operation in the models. The assumption here is that the facilities only have one incoming primary type of operation. This was the case in San Diego which had a service area that spanned three "SCFs" or Sectional Center Facilities (ZIP Codes beginning with 919, 920,or 921). Since this same assumption was used in all models, the impact on any cost differences between the mail types should be minimal.

RCR Node: Some of the differences between the models involve changes to the finalization rates for the Remote Computer Read (RCR) system.[2] Therefore, an RCR node was used in the models. As a result, the lower Remote Encoding Center (REC) productivity from LR-H-113 was used for all models. This productivity was more representative of the pure keying productivity at a REC because it minimized the impact of RCR. (The models in USPS-T-25 and USPS-T-29 used the higher productivity because they did not have separate RCR nodes and therefore the RCR impact was built into the REC productivity.)

Finalized Firm Mail: The presort models did not use density tables that included firm mail because it was assumed that presort mail destinated at household delivery addresses. As stated previously, these single piece models do include firm holdout mail. The mail finalized on any given operation is shown in the "shelf" hanging from the lower right hand corner of all applicable operations in the models.

Barcoded Incoming Secondaries: All mail flowing to incoming secondaries in the barcoded models was diverted to the single pass operation. This assumption was used to illustrate the fact that many ZIP Codes where carriers would deliver mail to businesses would be the least likely Delivery Point Sequence (DPS) zones. Even in a DPS environment, some sites would hold out firm mail (depending on the volume) on the first pass rather than sorting it in walk sequence. In addition, many firms have their mail finalized on a box section program (operation 877) that is usually a single pass incoming secondary for box section mail. Therefore, the single pass assumption was used for incoming secondary mail.

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[2] See page 5 for more detailed description.

EXHIBIT USPS-RT-17H: DENSITY TABLES

The purpose of this analysis is to add firm holdout downflow density percentages to the work done in Docket No MC95-1, LR-MCR-3.

LR-MCR-3 calculated downflow densities for several MODS operations at the Outgoing Primary, Outgoing Secondary, Managed Mail, SCF, Incoming Primary, and Incoming Secondary levels. Downflow densities are defined as the percentage of mail that is sorted to each level, or "flows downward" to each level. Early in the work period for LR-MCR-3, it was determined to exclude all bins with a disposition or DISP code of 9. DISP code 9 bins are defined as bins containing a complete 9-digit ZIP or a firm name, regardless of the remaining description. The current work added DISP code 9 densities back into the density tables.

The work done to add DISP code 9 mail back into the results table was relatively straight-forward. Since the data had already been collected, the programs that had taken DISP code 9 mail out of the final dataset were modified to leave that mail in the dataset and separate it from the other sort levels. The result is a summary of final densities table that is similar to Table 4 in LR-MCR-3, but has an extra column for DISP code 9 mail.

The specific changes to the programs were very minor. In the program Anal_3.sas (pages 3-8), the section of code from lines 41 through 68 was commented out, since this is the section that eliminated DISP code 9 mail in the original program. The section of code in lines 264 through 273 was also commented out, since this section eliminated the remainder of the DISP code 9 mail. In the program Anal_4.sas (pages 9-17), line 749 was added to format the DISP code 9 tallies. The rest of the program remained the same. No other changes were necessary since the output datasets from Anal_3.sas now include the DISP code 9 tallies.

Following is an updated version of Table 4 (page 2) from Docket No. MC95-1, LR-MCR-3. This table now includes DISP9 densities. The modified programs Anal_3.sas and Anal_4.sas are also included.

CERTIFICATE OF SERVICE

I hereby certify that I have this date 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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