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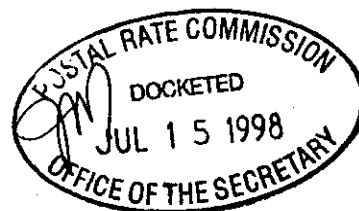
USPS-T-5
OFFICE OF THE SECRETARY

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

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
MICHAEL K. PLUNKETT
ON BEHALF OF
UNITED STATES POSTAL SERVICE



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1

Direct Testimony
of
Michael K. Plunkett

AUTOBIOGRAPHICAL SKETCH

2 My name is Michael K. Plunkett. I am currently an economist in the
3 Pricing Office of Marketing. I began working for the Postal Service in 1984 as a
4 letter carrier at the Dracut, Massachusetts Post Office. In 1985, I transferred to
5 the Manchester, New Hampshire Division where I held a number of positions in
6 customer services operations. In 1990, I was accepted to the Management
7 Intern program. As an intern, I rotated through a number of short to medium
8 term assignments in various organizational units throughout the country. These
9 assignments included positions in headquarters, area, and district offices in
10 finance, human resources, operations, and marketing. In 1995, I transferred to
11 the office of Budget and Financial Analysis where I served as an Economist.
12 In February 1997, I transferred to the office of Pricing. My responsibilities
13 include all aspects of fee design for various special services.

14 I received bachelor's degrees in finance and economics from
15 Pennsylvania State University in University Park, Pennsylvania, and a master's
16 degree in business administration from the Wharton School at the University of
17 Pennsylvania, where I concentrated on finance and decision sciences.

1 I have presented pricing testimony in two previous dockets. I was the
2 Postal Service's pricing witness in the Provisional Packaging Service case
3 (Docket No. MC97-5), and in the last omnibus rate case (Docket No. R97-1), for
4 various special services.

I. PURPOSE OF TESTIMONY

1 My testimony presents pricing and classification analyses of the Postal
2 Service's proposals to establish both a market test and an experimental
3 classification for Mailing Online, and appropriate means for setting fees for both
4 a market test and a later experiment. My testimony begins with a description of
5 the proposals, followed by a discussion of user characteristics, anticipated
6 revenues, fee design, and postage and fee calculation techniques. I then
7 explain how the proposals meet the rate and classification criteria of the Postal
8 Reorganization Act.

II. PROPOSAL

11 The Postal Service proposes an experimental classification for Mailing
12 Online preceded by a market test. Mailing Online will allow customers who use
13 the Postal Service's internet site to present electronic documents for printing and
14 subsequent entry into the mail stream. Documents presented for Mailing Online
15 service will be stored electronically, batched with other documents, and
16 transmitted to one or more commercial printers who will print and prepare the
17 documents for entry at a designated postal acceptance unit.

18 The Postal Service plans to offer Mailing Online users the opportunity to
19 use either First-Class Mail or Standard Mail Regular rates, depending on the
20 content of the document and the individual customer's service needs. Further,
21 the Postal Service is developing a means for verifying a Standard nonprofit
22 customer's eligibility, so that category can be available for experimental Mailing

1 Online service. In addition to choosing among these subclasses, customers will
2 also identify their printing, finishing, and distribution preferences. These options
3 are summarized in my Exhibit E.

4 The Postal Service expects to offer Mailing Online service first as a
5 market test, and then as an experimental service for a period of two years. Any
6 decision to request permanent classification changes for Mailing Online, or to
7 conduct a further experiment would be made prior to the end of the two year
8 period. Mailing Online service is proposed as an independent special service
9 that is treated as a separate product for pricing purposes. Mailing Online
10 customers would be charged existing postage rates plus a fee for premailing
11 services.

12 In lieu of a set fee schedule for the Mailing Online experiment, the Postal
13 Service proposes the establishment of a markup, which would be applied to the
14 actual printer costs – as determined by the written contracts between the Postal
15 Service and the contractors providing pre-mailing services – plus the Postal
16 Service's internal system development costs. There are reasons for proposing
17 a markup as opposed to a fee schedule, the first being printer cost variations.
18 The flexibility provided by a preset markup would allow the Postal Service to
19 signal customers correctly regarding the cost of printing. Printing costs may vary
20 substantially by region due to differences in labor and real estate costs. As
21 growth of Mailing Online leads to the establishment of additional printing sites,
22 the use of a markup will allow the Postal Service to reflect local printing cost

1 variations directly in the fees charged to Mailing Online customers. For example,
2 a customer whose documents are sent to a printing location in Southern
3 California might pay different fees for the same service than if the same
4 documents were sent to a printer in Indianapolis. This flexibility would provide
5 the Postal Service with a mechanism whereby local differences in cost can be
6 reflected equitably in Postal Service fees.

7 Passing through printing costs in this manner is also likely to produce the
8 best outcome for customers and printers. In the absence of a markup over
9 geographically variable costs, the Postal Service will be forced to use an average
10 national price. In areas where prevailing prices are low relative to the Postal
11 Service fee, price sensitive customers might use other providers, reducing Postal
12 Service volume. Due to the nature of contracts in this industry, a reduction in
13 volume would tend to increase the unit cost of the service, which would raise
14 prices for customers , and impair the viability of Mailing Online in these areas. In
15 high cost areas, where a price based on average national costs would be
16 relatively low, the effect could be unfairly detrimental to existing providers of
17 comparable services.

18 The fact that Mailing Online customers will contact the Postal Service via
19 the internet indicates that they are likely to value convenience, and to be familiar
20 with different internet service and product offerings (see testimony of witness
21 Campanelli, USPS-T-8, p. 2). The Mailing Online system will allow customers to
22 choose mailing options from several menus and, once the customer has supplied

1 the necessary address, service, and feature information, quickly provide a price
2 quote showing an itemized list of fees for the set of features chosen. Examples
3 are included in my
4 Exhibit A.

5 While simplifying the transaction from the customer's standpoint, the
6 markup is also intended to enable continued administration if new features are
7 introduced, when contracts are renewed, and for changes in Postal Service costs
8 that may be triggered by automatic escalator clauses standard in printing
9 contracts. For instance, standard printing industry contracts allow for the
10 agreed-upon prices to change if the Paper Price Index varies by more than a
11 predetermined amount.

12 In addition to these advantages, the proposed markup system has other
13 merits. The markup guarantees that Mailing Online will cover its costs. As
14 indicated above, unforeseen changes in materials costs could result in an
15 escalation in Postal Service costs due to the nature of contracting practices
16 common in the printing industry. The markup ensures that, despite unforeseen
17 changes in input costs, Mailing Online will cover its costs and make a
18 contribution to institutional costs. While the Postal Service can submit a request
19 to change prices, the time required to prepare and litigate such a request might
20 be prohibitively long given the volatility in the price of paper (see my Exhibit C:
21 Volatility in the Price of Paper).

1 **III. ANTICIPATED REVENUES**

2 **A. Premailing Revenues**

3 For the Postal Service, Mailing Online is an experimental entry into a
4 market that has just begun to form. While it goes without saying that the Postal
5 Service would not offer the service without the expectation that a viable market
6 will develop, the ultimate size of the market for services like Mailing Online is
7 unknown. Notwithstanding, as reflected in the testimony of witness Hamm
8 (USPS-T-6, p. 2, lines 20-21), members of the digital printing industry favor
9 Postal Service entry into this market because they share the belief that a postal
10 presence will serve to increase the overall market size. This uncertainty about
11 the eventual size of the market, combined with a dearth of empirical data, makes
12 projection of volumes and revenues difficult. In developing forecasts, we have
13 relied on market research (USPS-T-4), and on the judgment of the Postal
14 Service managers and analysts developing the product.

15 In estimating Mailing Online revenues, I have used the costs in witness
16 Seckar's testimony, and the market research presented in LR-2/MC98-1.
17 Witness Seckar's costs are used in Exhibit A to illustrate how the markup system
18 outlined above will work.

19 Based on the volume distribution by number of pages, witness Seckar
20 estimates that Mailing Online will produce 5.505 billion impressions on a total of
21 3.391 billion pages during the experimental phase of Mailing Online (USPS-T-2,
22 Exhibit A, pp. 9-10). Using the unit costs also presented in the testimony of

1 witness Seckar, these volumes would result in costs of approximately \$151.4
2 million including paper and transportation costs. At a markup of 25 percent,
3 Postal Service revenues from Mailing Online would therefore be \$189.2 million
4 (Exhibit B)¹.

5 Practical application of the markup depends upon the costs used as the
6 basis for the markup. Witness Seckar's unit costs include information systems
7 costs (both fixed and variable) which would not be included in the costs resulting
8 from contracts with private printers. As witness Seckar's testimony indicates,
9 these costs comprise a relatively small portion of the total unit costs of the
10 service (Exhibit USPS-2A, pp. 1-2). However, they present a practical obstacle
11 to ready application of the proposed markup system. One solution to this
12 problem would be to add an adjustment factor to each impression charge from
13 printer contracts to account for these costs. For instance, during the
14 experimental period, information systems costs add an average increment of 0.1
15 cents per impression (Exhibit USPS-2A, p. 2).

16 Exhibit B shows projected revenues for Mailing Online and compares
17 revenues when systems costs are marked up with revenues if only printer costs
18 are used. The effect is minor. Cost coverage is reduced by less than 3 percent,
19 while projected revenues during the experiment are reduced by 2.4 percent.
20 Given the negligible impact of excluding these costs an alternative approach of
21 applying the markup to the contracted printing costs only could be considered.

¹ These costs and revenues also include the cost of envelopes marked up at 25 percent. Postage
(continued...)

1 Mailing Online customers will be able to choose from several finishing
2 options: stapling, stitch binding, tape binding, tabbing, or no finishing. The
3 market research from which the Mailing Online volumes are derived did not
4 attempt to quantify customer interest in different finishing options, nor is there
5 sufficient empirical data from the operations test on which to base projections.
6 As the cost model used by witness Seckar assumes only the purchase of inline
7 finishing equipment, finishing materials cost are not included in my revenue
8 estimate. Because these costs are not expected to be a significant portion of the
9 total Mailing Online costs, their exclusion is not expected to have a material
10 impact on the projected revenues for Mailing Online.

11 **B. Postage Revenue**

12 By making it easier for customers to produce mail, Mailing Online is
13 expected to result in a net increase in mail volume. Market research indicates
14 that 38 percent of Mailing Online pieces would not have been mailed in the
15 absence of the service (LR-2/MC98-1, p. 38), and witness Wilcox affirms that
16 Mailing Online has made it possible for her to create additional mailings each
17 month (USPS-T-7, p.2). The overall impact of Mailing Online on postage
18 revenue includes this revenue from new pieces, but must account for revenue
19 leakage as a result of making discounted rates available to Mailing Online
20 customers. Exhibit E estimates the postage revenue impact of Mailing Online.

(...continued)
revenue is excluded.

1 In estimating revenue from new volume, I have assumed that 38 percent
2 of volume in each class will be new to the Postal Service (LR-2/MC98-1, p. 38).
3 Additional assumptions regarding the weight per page are used to segregate
4 volume into different ounce increments, and to calculate per pound charges for
5 Standard Mail pieces that exceed the breakpoint weight of 3.3362 ounces.

6 These assumptions are explained in the notes to exhibit E.

7 To estimate revenue leakage from volume that would have been mailed
8 absent the availability of Mailing Online, I have assumed that customers would
9 have paid the highest applicable rate for the pieces they are sending.
10 Customers sending First-Class Mail pieces are assumed to have paid the single-
11 piece rate, while Standard Mail customers are assumed to be using the non-
12 automation basic rate categories with no destination entry discount.

13 As Exhibit E indicates, the overall net impact of Mailing Online on Postal
14 Service postage revenue is relatively modest at \$38.6 million during the
15 experimental period. It should be pointed out that this is gross revenue.
16 Reliable estimates of the net contribution from postage for Mailing Online would
17 be virtually impossible, given the lack of empirical data necessary to estimate
18 costs avoided due to the distribution of printing sites. Appendix A to witness
19 Garvey's testimony (USPS-T-1) discusses plans to collect this information.

20 **IV. USER CHARACTERISTICS**

21 Mailing Online service will provide customers who have access to the
22 internet and electronic document preparation capabilities a convenient way to

1 prepare and send mailable matter to their customers. It is expected, based on
2 the results of our market research, that most users will be small office or home
3 office (SOHO) businesses with the capability to use desktop computers to
4 produce their own documents in run sizes of fewer than 5,000 copies.² Market
5 research also indicates that Mailing Online customers will use the service to mail
6 announcements, invoices and statements, newsletters, forms, and advertising. It
7 is further expected that most Mailing Online customers will use either First-Class
8 Mail or Standard Mail Regular, with a small number qualifying for Standard Mail
9 Nonprofit rates. Additional information regarding the expected market for Mailing
10 Online is included in the testimony of witness Garvey (USPS-T-1).

11 Approximately 62 percent (LR-2/MC98-1, p. 38) of the mail projected for
12 Mailing Online would have been prepared and entered as mail notwithstanding
13 the availability of Mailing Online. For these customers, Mailing Online offers an
14 easy-to-use, low-cost way to prepare their mailings. The remaining 38 percent
15 (*ibid.*) of Mailing Online volume is material that, in the absence of Mailing Online,
16 would either not have been produced, or would have been produced and sent by
17 means other than the mail. For these customers, the convenience and cost
18 savings offered by Mailing Online create incentives to use the Postal Service for
19 the conduct of their business.

² See testimonies of witnesses Wilcox (USPS-T-7) and Campanelli (USPS-T-8).

1 **VI. PRICING ISSUES**

2 **A. Postage Rates**

3 During the experimental offering of mailing online, customers can choose
4 between First-Class Mail and Standard Mail. Standard Mail mailers who meet
5 the relevant qualification standards will be able to use nonprofit rates.³ In large
6 part, the availability of these options is driven by the characteristics of the
7 intended users of Mailing Online and the pieces they are likely to produce. As
8 indicated in the market research, Mailing Online customers are expected to
9 produce mailable matter that would, in the absence of Mailing Online, be sent as
10 either First-Class Mail or Standard Mail.⁴

11 During the experimental offering of Mailing Online, the Postal Service
12 intends to gather information on the cost causative characteristics of Mailing
13 Online volume. Once this information has been collected, it may be desirable to
14 implement a separate rate category or categories for Mailing Online, but at this
15 time the Postal Service proposes to use existing rate categories.

16 The issue of which rate categories to use is complicated by the
17 relationship between Mailing Online customers and the Postal Service. In

³ As discussed above, Nonprofit rates will not be available until procedures are established for verifying nonprofit eligibility.

⁴ One exception is the possible use of Mailing Online for distribution of newsletters. Market research indicates that this will account for a mere 4.8 percent of MOL volume. At this time, the need to maintain a relatively simple product offering weighs against making Periodicals rates available; however, should experience during the experiment or further research indicate a greater demand for this kind of document, the possibility of offering MOL customers the option of using Periodicals rates will be considered.

1 general, customers qualify for a given discount based on the degree to which
2 they have prepared their mail. In the case of Mailing Online, the degree of
3 preparation that is possible will depend not on the characteristics of a particular
4 mailing but on the characteristics of the batched job stream that is sent to a
5 particular printing location. Because one of the goals of Mailing Online is to
6 allow smaller customers the ability to take advantage of automation, the Postal
7 Service proposes to offer discounts that reflect the characteristics of Mailing
8 Online pieces. For First-Class Mail, the Postal Service proposes to use
9 Automation Basic rates during the experiment. In the case of Standard Mail, the
10 Automation Basic DBMC rates would be used for both the Regular and Nonprofit
11 subclasses.

12 These rates are appropriate given the characteristics of the mail pieces
13 produced by Mailing Online. All document mailing lists will be checked against
14 the Postal Service's current AIS database to ensure accuracy, and addressing
15 will conform to all of the criteria necessary to qualify for the relevant discounts.
16 Moreover, printers will be required to maintain quality control practices sufficient
17 to ensure qualification for appropriate discounts at the point of entry. However,
18 in some cases a printer's daily volume, especially early in the experiment, may
19 not exceed the 500-piece minimum volume established for the automation rates.
20 I am therefore proposing a classification change making the automation rates
21 available for Mailing Online, even in the exceptional case in which volume is less
22 than 500 pieces.

1 If Mailing Online volume exceeds expectation, or is in any way
2 concentrated in a particular area, it is conceivable that printers will be presented
3 with volumes large enough to qualify for larger discounts than those offered via
4 Mailing Online. In the event that this happens, the predetermined rates, *i.e.*,
5 automation basic for First-Class and automation DBMC for Standard Mail would
6 still apply. Witness Garvey's testimony contains a more detailed description of
7 mail entry procedures and the data collection procedures that will compare
8 actual with potential rates (USPS-T-1, Appendix A).

9 A similar issue exists with respect to entry within a given BMC service
10 area. During the market test phase, customers will be chosen based on
11 proximity to the print site. However they will be able to mail to any address
12 irrespective of its geographical location. As a result, mail destined for BMC
13 service areas outside of the northeastern United States will not be entered at the
14 destination BMC. We are therefore proposing a change to the DMCS that will
15 allow Mailing Online customers to qualify for the DBMC discounted rates
16 irrespective of entry within a BMC service area. Conversely, in some cases entry
17 of mail at the designated postal facility would qualify for DSCF discounts. As
18 such, DBMC rates represent an appropriate compromise.

19 **B. POSTAGE CALCULATION**

20 As mentioned above, customers will be quoted a price, including postage,
21 when they have finished specifying the features that they want for their
22 document. The postage portion of the customer charges is calculated by the

1 Mailing Online system based on the number of pages in the document, the
2 finishing option selected, and the type of envelope(s) used. Mailing Online
3 printers will be required to use a specific grade paper and envelopes, which will
4 ensure uniformity. Based on standard unit weights for the physical components
5 of a customer's mail piece, the Mailing Online system will calculate a weight per
6 piece, and apply the appropriate rate given the subclass chosen by the
7 customer.

8 **C. INTERIM PRICES**

9 As explained by witness Garvey, the Postal Service has been conducting
10 an operations test during which customers have received free printing services
11 while paying single-piece First-Class Mail rates. While this arrangement has
12 been adequate for limited testing purposes, opening the system to thousands of
13 users as is proposed would result in the Postal Service incurring significant
14 costs. In order to offset these costs, the Postal Service is requesting
15 authorization to establish a fee schedule during the market test of Mailing Online.

16 At the time of this filing, the Postal Service is considering bids from
17 printing contractors in the Northeastern United States, and a contract award is
18 expected within 30 days. The Postal Service requests that at the time the
19 contract is awarded, a fee schedule be established based on the unit costs
20 stipulated within the contract, plus the variable information systems costs
21 presented by witness Seckar (Exhibit USPS-2A, p. 1). Exhibit E contains a
22 matrix that contractor proposals will populate, along with 3 additional columns

1 (the three rightmost columns) that illustrate how printer prices would be
2 converted into Mailing Online fees for the purposes of the market test.

3 While the outcome of the procurement process is not known at this time, it
4 is expected that the resulting unit costs will not differ markedly from the
5 estimates presented in witness Seckar's testimony. As a result, the sample fees
6 presented in Exhibit A are an indicator of the fees that customers would pay in
7 the interim period.

8 VII. CLASSIFICATION CRITERIA

9 This proposal satisfies the classification criteria of section 3623 (c) of Title
10 39, United States Code, which requires that classification changes be set in
11 accordance with the following factors:

- 12 1. the establishment and maintenance of a fair and equitable
13 classification system for all mail;
- 14
15 2. the relative value to the people of the kinds of mail matter entered into
16 the postal system and the desirability and justification for special
17 classifications and services of mail;
- 18
19 3. the importance of providing classifications with extremely high degrees
20 of reliability and speed of delivery;
- 21
22 4. the importance of providing classifications which do not require an
23 extremely high degree of reliability and speed of delivery;
- 24
25 5. the desirability of special classifications from the point of view of both
26 the user and the Postal Service; and
- 27
28 6. such factors as the Commission may deem appropriate.
29

1 By offering Mailing Online, the Postal Service joins the ranks of
2 businesses and governmental agencies offering services to their customers via
3 the internet. Mailing Online offers customers the opportunity to conduct
4 transactions with the Postal Service without leaving their home or workplace.
5 Witnesses Wilcox and Campanelli, along with the market research presented in
6 this docket (LR-1/MC98-1), provide evidence that customers are prepared to
7 take advantage of this technology to transact business with the Postal Service.
8 Thus, Mailing Online satisfies criterion 2.

9 Mail entered via Mailing Online will have an extremely high degree of
10 reliability (Criterion 3). For instance, all mail pieces will be automation
11 compatible at the time of entry. Moreover, Postal Service software used for
12 Mailing Online will ensure that all Mailing Online volume is sorted in conformity
13 with the most current sort plans available, and with the greatest possible depth.
14 To the extent that Mailing Online pieces would have been mailed in the absence
15 of the service, it is expected that many or most such pieces would have been
16 entered at single-piece rates by mailers who mail in relatively small bulk
17 quantities and who therefore may not have the technical expertise to utilize the
18 existing discount structure. Consequently, Mailing Online should have a
19 decidedly positive effect on the overall classification system by enabling a large
20 number of diverse customers to take advantage of worksharing opportunities and
21 the postage discounts associated therewith (Criterion 1). Mailing Online should
22 also improve speed of delivery due to the dispersed network of printers available

1 to Mailing Online customers. Mailing Online will normally allow next day entry at,
2 or near, the point of destination, thereby providing Mailing Online customers
3 faster delivery than they would likely otherwise receive.

4 Of course, subject to existing content restrictions, customers who do not
5 require immediate delivery can choose options that will enter pieces at Standard
6 Mail rates (Criterion 4). This will allow customers who meet the necessary
7 content restrictions, and who are less concerned with delivery speed, an
8 opportunity to save on postage expense, and will allow the Postal Service to
9 improve the match of demand with processing capacity at the point of entry
10 (Criterion 5).

11 The Postal Service has developed Mailing Online to meet the needs of
12 small, independent businesses. In its historical role as a public service, the
13 Postal Service has long striven to provide mailing and communications services
14 that meet the needs of individuals and small businesses. Since the Postal
15 Reorganization Act, the Postal Service and the Postal Rate Commission have
16 worked together to develop products and price incentives that have allowed
17 larger mailers to reduce mailing costs by taking advantage of worksharing
18 opportunities. The concurrent growth of presorting and consolidation industries
19 have further allowed small and medium-sized businesses to share in the benefits
20 of worksharing. But these industries may not meet the needs of some small and
21 home office (SOHO) customers. In addition to allowing individual, SOHO, and
22 small nonprofit customers an easier means of accessing postal services, Mailing

1 Online offers an opportunity for these customers, who might otherwise be unable
2 to take advantage of worksharing, to reduce their mailing costs through a form of
3 worksharing.

4 **VIII. PRICING CRITERIA**

5 Mailing Online meets the criteria of section 3622 (b) of Title 39, United
6 States Code, which requires that postal rates and fees be set in accordance with
7 the following factors:

- 8 1. the establishment and maintenance of a fair and equitable
9 schedule.
- 10
11 2. the value of the mail service actually provided by each class
12 or type of mail service to both the sender and the recipient;
- 13
14 3. the requirement that each class of mail or type of mail service
15 bear the direct and indirect postal costs attributable to that
16 class or type plus that portion of all other costs of the Postal
17 Service reasonably assignable to such class or type;
- 18
19 4. the effect of rate increases upon the general public, business
20 mail users, and enterprises in the private sector of the
21 economy engaged in the delivery of mail matter other than
22 letters;
- 23
24 5. the available alternative means of sending and receiving
25 letters and other mail matter at reasonable costs;
- 26
27 6. the degree of preparation of mail for delivery into the postal
28 system performed by the mailer and its effect upon reducing
29 costs to the Postal Service;
- 30
31 7. simplicity of structure for the entire schedule and simple,
32 identifiable relationships between the rates or fees charged
33 for the various classes of mail for postal services;
- 34
35 8. the educational, cultural, scientific, and informational value to
36 the recipient of mail matter; and

1
2 9. such other factors as the Commission deems appropriate.
3

4 The Postal Service proposes that a markup of 125 percent be established
5 for Mailing Online. The markup would be applied to the actual premailing costs
6 of each customer's transaction, resulting in premailing fees that would vary
7 depending on the options selected by the customer. This markup guarantees
8 that Mailing Online will cover its attributable costs and provide a contribution to
9 cover institutional costs. Moreover, at the proposed markup, revenues from
10 Mailing Online will exceed costs during the market test and experimental periods
11 (Criterion 3).

12 Mailing Online enhances convenience. Its proposed cost coverage of
13 approximately 125 percent is reasonable and appropriate. Several factors weigh
14 in favor of a moderate cost coverage at this time. Mailing Online is being offered
15 as an experimental service, the purpose of the experiment being to determine
16 the viability of the product under conditions which are likely to obtain for a
17 permanent service. A relatively modest markup facilitates attainment of this
18 particular goal in a number of ways. The Postal Service's market research
19 indicates that Mailing Online's target customers are price sensitive (LR-2/MC98-
20 1, Table 16), and a relatively low markup during the introduction of the product
21 will help to build use among the target customers, thereby allowing the Postal
22 Service to measure salient factors such as customer satisfaction, product quality,
23 and impact on operations. In turn, this will improve the Postal Service's and the

1 Commission's abilities to evaluate the merits of Mailing Online in the event that
2 the Postal Service requests a permanent classification. Because the Mailing
3 Online experiment would be available for only two years, the Commission, the
4 Postal Service, and intervenors will have an opportunity to revisit fees soon,
5 should the Postal Service request a permanent classification. Moreover, the
6 introduction of Mailing Online will produce additional First-Class Mail and
7 Standard Mail volume. Therefore, in addition to providing contribution through its
8 own markup, Mailing Online will indirectly improve postal finances to the extent
9 that the service attracts new volume to these subclasses. Finally, because
10 Mailing Online mail will be entered close to the point of destination, the cost to
11 the Postal Service of handling these pieces will tend to be lower than would
12 otherwise be the case.

13 As mentioned above, Mailing Online is intended to serve small mailers by
14 offering these customers a way to take advantage of worksharing opportunities.
15 However, while Mailing Online performs a service that is analogous to presorting,
16 Mailing Online customers are unlikely to be current users of presorting services,
17 because of the size of a typical Mailing Online mailing. As a result, the effect of
18 Mailing Online's introduction on existing presort volumes is expected to be
19 minimal. Indeed, though such effects are difficult to anticipate, the availability of
20 Mailing Online could lead to the development of businesses acting as
21 intermediaries between smaller businesses and the Postal Service by preparing
22 documents for use with Mailing Online. The effect of Mailing Online on the

1 general public, and on business mail users, is expected to be highly beneficial
2 (Criterion 4). Mailing Online offers mail users the convenience of bundled mail
3 preparation and mailing services that can be accessed from the desktop.
4 Furthermore, with the Postal Service expected ultimately to spend over \$230
5 million annually on printing services (see Exhibit B), the introduction of Mailing
6 Online will greatly benefit printing and document preparation businesses.

7 Application of Criterion 5 to Mailing Online is complicated. Mailing Online
8 combines elements of both traditional and electronic mail. As such, alternatives,
9 albeit imperfect ones, abound. Mailing Online customers could elect to print and
10 prepare mailings themselves, at which point these customers would be able to
11 use existing mail classes consistent with their needs. There may be some
12 difference in the rates customers would pay. However, the difference in the total
13 cost to the customer, including preparation costs, defies precise quantification.
14 Conversely, Mailing Online customers, by virtue of their ability to access the
15 Postal Service's web site, are presumed to have access to electronic mail. To
16 the extent that these customers maintain electronic address lists of their
17 customers, e-mail represents a viable substitute for Mailing Online. In some
18 cases, Mailing Online may be preferable to e-mail in enhancing the appearance
19 or impact of a document.

20 As indicated above, the Postal Service proposes to charge automation
21 basic rates for pieces sent via Mailing Online. The customers will not prepare
22 the mail directly to meet the automation requirements. In order to qualify for

1 Mailing Online, customers are required to meet a different set of standards.
2 They must present a document and mailing list in a form that can be used by the
3 Postal Service's online document batching system. Preparation of documents in
4 this manner by customers allows the Postal Service to take advantage of
5 economies of scale which lower printing costs, and to bypass handling costs at
6 origin as a result of the destination entry that mailing online pieces will receive
7 (Criterion 6).

8 Mailing Online makes use, where possible, of the Postal Service's existing
9 rate schedules and, because it relies on a markup over actual costs, will not
10 require fee changes as a result of changes in the rates for mail classes with
11 which Mailing Online will be offered. Thus, the addition of Mailing Online to the
12 DMCS will in no way add unnecessary complexity to the Postal Service's rate
13 schedule (Criterion 7).

14

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Exhibit USPS-5A
Sample Mailing Online Fees

EXHIBIT A

SAMPLE MAILING ONLINE PRICES

	Impression Costs ¹ (A)	Paper Costs ² (B)	Envelope Costs ² (C)	Transportation Costs ³ (D)	Subtotal (E)	Contribution (E*0.25)	Fee (E*1.25)	Postage ⁴	Total Postage & Fee
Example 1 2 Page, 8.5/11, Simplex, Black & White, First-Class	\$ 0.0282	\$ 0.0098	\$ 0.000	\$ 0.0005	\$ 0.039	\$ 0.010	\$ 0.049	\$ 0.270	\$ 0.319
Example 2 10 Page, 8.5/14, Duplex, Black & White, First-Class	\$ 0.2824	\$ 0.0534	\$ 0.045	\$ 0.001	\$ 0.382	\$ 0.095	\$ 0.477	\$ 0.740	\$ 1.217
Example 3 5 Page, 8.5/11, Simplex, Spot Color, Standard (A)	\$ 0.1223	\$ 0.0244	\$ 0.000	\$ 0.001	\$ 0.147	\$ 0.037	\$ 0.184	\$ 0.219	\$ 0.403
Example 4 22 Page, 8.5/14, Duplex, Spot color, First-Class	\$ 1.0764	\$ 0.1174	\$ 0.045	\$ 0.001	\$ 1.239	\$ 0.310	\$ 1.549	\$ 0.313	\$ 1.862

Notes:

- 1: USPS-T-2, Exhibit 1, p. 2 Costs exclude the fixed portion of system development costs.
- 2: USPS-T-2, Exhibit 1, p. 29
- 3: USPS-T-2, Exhibit 1, p. 8, 1999 transportation costs used.
- 4: Uses rates from R97-1, effective January 10, 1999

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Exhibit USPS-5B

Projected Mailing Online Revenues

REVENUES INCLUDING VARIABLE INFORMATION SYSTEMS COSTS

	Note	1999	2000	2001	2002	2003	Total 1999-2000
Impression Costs	(1)	39,648,674	68,239,796	103,503,425	141,786,141	169,488,099	\$ 107,888,470
Paper Costs							
Pages printed on 8.5x11 paper	(2)	974,425,779	1,700,634,621	2,651,498,717	3,716,985,759	4,341,778,237	2,675,060,399
Cost	(3)	4,762,993	8,578,708	13,696,269	19,680,024	23,562,763	\$ 13,341,702
Pages printed on 8.5x14 paper	(2)	108,818,495	108,818,495	108,818,495	108,818,495	108,818,495	217,636,991
Cost	(3)	580,568	599,147	613,526	628,864	644,586	\$ 1,179,715
Pages printed on 11x17 paper	(2)	152,049,453	214,963,422	297,340,049	389,646,856	443,774,777	367,012,875
Cost	(3)	1,552,851	2,265,631	3,209,060	4,310,419	5,031,933	\$ 3,818,481
Total Pages		1,235,293,727	2,024,416,538	3,057,657,262	4,215,451,110	4,894,371,509	3,259,710,265
Total Paper Cost		6,896,412	11,443,486	17,518,855	24,619,307	29,239,282	\$ 18,339,898
Envelope Costs							
Letter Size Pieces	(4)	260,096,523	453,938,269	707,745,640	992,148,497	1,158,919,896	714,034,792
Cost	(3)	108,308	195,076	311,447	447,515	535,807	\$ 303,384
Flat Size Pieces	(4)	35,538,936	62,024,986	96,704,588	135,564,680	158,351,906	97,563,922
Cost	(3)	1,672,832	3,012,966	4,810,327	6,911,908	8,275,582	\$ 4,685,798
Total Envelopes		295,635,459	515,963,255	804,450,228	1,127,713,177	1,317,271,802	811,598,714
Total Cost		1,781,140	3,208,042	5,121,774	7,359,423	8,811,389	\$ 4,989,183
Subtotal Paper & Envelope Cost		8,677,553	14,651,528	22,640,630	31,978,730	38,050,671	\$ 23,329,080
Transportation Costs (5)							
First-Class letters		44,258	76,293	113,766	115,359	116,974	120,551
First-Class flats		9,182	15,827	23,602	23,932	24,267	25,009
Standard (A) letters		216,052	372,430	555,359	563,134	571,018	588,482
Standard (A) flats		388,760	670,144	999,303	1,013,293	1,027,479	1,058,904
Subtotal Transportation Costs		658,252	1,134,695	1,692,030	1,715,718	1,739,739	1,792,947
Total Costs		55,880,891	95,469,504	145,354,940	200,099,897	238,517,791	\$ 151,350,395
Revenue @ 25% Markup		\$ 69,851,113	\$ 119,336,880	\$ 181,693,675	\$ 250,124,871	\$ 298,147,238	\$ 189,187,994

Notes

- (1) USPS-T-2, Exhibit 1, p. 2. Excluding fixed information systems costs
- (2) USPS-T-2, Exhibit 1, p. 10
- (3) USPS-T-2, Exhibit 1, p. 29
- (4) USPS-T-2, Exhibit 1, pp. 9-10
- (5) Transportation costs are derived by multiplying the expected volumes for each type of mail by the appropriate cost factor volumes are from LR-2/MC98-1, p.39, costs are from USPS-T-2, p. 8

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REVENUES EXCLUDING VARIABLE INFORMATION SYSTEMS COSTS

		1999	2000	2001	2002	2003	Total 1999-2000
Impression Costs Less USPS Variable System Costs	(1)	38,090,050	66,207,281	100,830,841	139,287,023	166,990,430	\$ 104,297,331
Paper Costs							
Pages printed on 8.5x11 paper	(2)	974,425,779	1,700,634,621	2,851,498,717	3,716,985,759	4,341,778,237	2,675,060,399
Cost	(3)	4,782,993	8,578,708	13,896,269	19,680,024	23,562,763	\$ 13,341,702
Pages printed on 8.5x14 paper	(2)	108,818,495	108,818,495	108,818,495	108,818,495	108,818,495	217,636,991
Cost	(3)	580,568	599,147	613,528	628,864	644,586	\$ 1,179,715
Pages printed on 11x17 paper	(2)	152,049,453	214,963,422	297,340,049	389,646,856	443,774,777	367,012,875
Cost	(3)	1,552,851	2,265,631	3,209,060	4,310,419	5,031,933	\$ 3,818,481
Total Pages		1,235,293,727	2,024,416,538	3,057,657,262	4,215,451,110	4,894,371,509	3,259,710,265
Total Paper Cost		6,896,412	11,443,486	17,518,855	24,619,307	29,239,282	\$ 18,339,898
Envelope Costs							
Letter Size Pieces	(4)	260,096,523	453,938,269	707,745,640	992,148,487	1,158,919,896	714,034,792
Cost	(3)	108,308	195,076	311,447	447,515	535,807	303,384
Flat Size Pieces	(4)	35,538,936	62,024,986	96,704,588	135,564,680	158,351,906	97,563,922
Cost	(3)	1,872,832	3,012,968	4,810,327	8,911,908	8,275,582	4,685,798
Total Envelopes		295,635,459	515,963,255	804,450,228	1,127,713,177	1,317,271,802	811,598,714
Total Cost		1,781,140	3,208,042	5,121,774	7,359,423	8,811,389	4,989,183
Paper & Envelope Cost		8,677,553	14,651,528	22,640,630	31,978,730	38,050,671	\$ 23,329,080
Transportation Costs							
First-Class letters	(5)	44,258	76,293	113,786	115,359	116,974	120,551
First-Class flats		9,182	15,827	23,602	23,832	24,267	25,009
Standard (A) letters		216,052	372,430	555,359	563,134	571,018	588,482
Standard (A) flats		388,760	670,144	999,303	1,013,293	1,027,479	1,058,804
Subtotal Transportation Costs		658,252	1,134,695	1,692,030	1,715,718	1,739,739	1,792,947
Total Costs		54,322,287	93,436,989	142,682,358	197,600,779	236,020,122	\$ 147,759,256
Revenue @ 25% Markup		\$ 67,902,833	\$ 116,796,237	\$ 178,352,945	\$ 247,000,974	\$ 295,025,152	\$ 184,699,070
Revenue/Costs Including Variable System Developmen	(6)	121.5%	122.3%	122.7%	123.4%	123.7%	122.0%
Markup Required to Cover All Costs @ 125%	(7)	28.04%					
Revenue @ 28.04% Markup		69,553,143	119,634,851	182,687,633	253,004,082	302,195,439	\$ 189,187,894
Difference (Printer CostsX1.2804-Total CostsX1.25)		(297,970)	297,970	993,958	2,879,211	4,048,201	0
% Difference		-0.4%	0.2%	0.5%	1.1%	1.3%	0.0%
Cumulative Difference		(297,970)	0	993,958	3,873,169	7,921,370	

Notes

- (1) Exhibit USPS-2A, p. 2. Excludes fixed information systems costs
- (2) Exhibit USPS-2A, p. 10
- (3) Exhibit USPS-2A, p. 29
- (4) Exhibit USPS-2A, pp. 9-10
- (5) Transportation costs are derived by multiplying the expected volumes for each type of mail by the appropriate cost factor volumes are from LR-2/MC98-1, p. 39, costs are from USPS-T-2, p. 8
- (6) Revenue divided by total costs from exhibit 2A above.
- (7) Divides revenues for 1999-2000 from exhibit 2A above by the total costs above

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Exhibit USPS-5C

Volatility In Paper Prices

Selected Paper Price Indices*
1994-1998

	1994	1995	1996	1997	1998(est)
Pulp, Paper, and Products, Excluding Building Paper	1.331 4.3%	1.634 22.8%	1.497 -8.4%	1.447 -3.3%	1.502 3.8%
Paper Except Newsprint	1.217 1.0%	1.584 30.2%	1.446 -8.7%	1.4 -3.2%	1.437 2.6%
Paper, Unwater Marked Bond No. 4 Grade	1.201 3.7%	1.606 33.7%	1.431 -10.9%	1.392 -2.7%	1.481 6.4%

* Source: Standard & Poor's DRI Short Range Cost and Price Review, Second Quarter 1998, p. 81

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Exhibit USPS-5D

Mailing Online Postage Revenue

Estimated Mailing Online Postage Revenue

Volumes ¹	% of Total	Year 1	8.5/11 ²	8.5/14	11/17
Total Volume	100.0%	295,665			
Rapid Volume	31.0%	91,745			
Standard Volume	69.0%	203,920			
1-2 pages	67.8%	200,490	158,167	17,663	24,680
3-4 pages	10.7%	31,547	24,888	2,779	3,883
5-6 pages	9.5%	28,059	22,135	2,472	3,454
7-10 pages	3.2%	9,432	7,441	831	1,161
11-15 pages	1.8%	5,263	4,152	464	648
More than 15 pages	7.1%	20,844	16,444	1,836	2,566
Printed on 8-1/2 x 11 paper	78.9%	233,250			
Printed on 8-1/2 x 14 paper	8.9%	26,048			
Printed on 11 x 17 paper	12.3%	36,396			

Volume By Ounce Increments		Revenue Leakage											
	# Ozs ⁴	Total	8.5/11	8.5/14	11/17	Rate	Revenue ⁵	New Revenue ⁶	Existing Volume ⁷	Existing Rate ⁸	Rate Differential ⁹	Leakage ¹⁰	Net Revenue
First Class Letters ³	1	70,372	56,802	5,912	7,658	\$ 0.27	\$ 19,001	\$ 7,220	43,831	\$ 0.33	\$ 0.060	\$ 2,618	\$ 4,602
	2	9,272	6,869	1,198	1,205	\$ 0.49	\$ 4,543	\$ 1,726	5,749	\$ 0.55	\$ 0.060	\$ 345	\$ 1,382
	3	1,072			1,072	\$ 0.71	\$ 761	\$ 289	665	\$ 0.77	\$ 0.080	\$ 40	\$ 249
First Class Flats	1												
	2	1,796	1,732	64	0	\$ 0.22	\$ 395	\$ 150	1,114	\$ 0.55	\$ 0.330	\$ 367	\$ (217)
	3	1,920	1,608	222	90	\$ 0.44	\$ 845	\$ 321	1,180	\$ 0.77	\$ 0.330	\$ 393	\$ (72)
	4	2,223	1,957	86	180	\$ 0.66	\$ 1,467	\$ 558	1,378	\$ 0.99	\$ 0.330	\$ 455	\$ 103
	5	2,041	1,699	171	170	\$ 0.88	\$ 1,796	\$ 682	1,265	\$ 1.21	\$ 0.330	\$ 418	\$ 265
	6	1,922	1,699	142	80	\$ 1.10	\$ 2,114	\$ 803	1,192	\$ 1.43	\$ 0.330	\$ 393	\$ 410
	7	342	0	142	199	\$ 1.32	\$ 451	\$ 172	212	\$ 1.65	\$ 0.330	\$ 70	\$ 102
	8	302	0	142	159	\$ 1.54	\$ 465	\$ 177	187	\$ 1.87	\$ 0.330	\$ 62	\$ 115
	9	159			159	\$ 1.76	\$ 280	\$ 107	99	\$ 2.09	\$ 0.330	\$ 33	\$ 74
	10	159			159	\$ 1.98	\$ 315	\$ 120	99	\$ 2.31	\$ 0.330	\$ 33	\$ 87
	11	159			159	\$ 2.20	\$ 350	\$ 133	99	\$ 2.53	\$ 0.330	\$ 33	\$ 101
	12	159			159	\$ 2.42	\$ 385	\$ 146	99	\$ 2.75	\$ 0.330	\$ 33	\$ 114
Total First Class		91,899	72,365	8,082	11,452		\$ 33,170	\$ 12,604	56,977			\$ 5,291	\$ 7,314
Standard Mail Letters ¹	# Ozs <3.3087	179,407	141,520	15,804	22,083	\$ 0.167	\$ 29,961	\$ 11,385	111,232	\$ 0.24	\$ 0.068	\$ 7,564	\$ 3,821
Flats	<3.3087	8,260	7,423	637	200	\$ 0.229	\$ 1,892	\$ 719	5,121	\$ 0.30	\$ 0.075	\$ 384	\$ 335
Piece/Pound	# Pieces >3.3087	16,596	11,903	1,522	3,171	\$ 0.105	\$ 1,743	\$ 662	10,290	\$ 0.18	\$ 0.059	\$ 607	\$ 65
# Pounds		5,333	3,312	535	1,486	\$ 0.598	\$ 3,189	\$ 1,212	3,307	\$ 0.68	\$ 0.079	\$ 281	\$ 951
Total Standard Mail							\$ 36,784	\$ 13,978				\$ 8,816	\$ 5,162
Total Revenue							\$ 69,954	\$ 26,582				\$ 14,107	\$ 12,476

Notes:

- LR-2/MC98-1, p. 39
- Assumes that relative proportions of volume by paper size are constant for all document lengths. E.g. 78.9% of 5-6 page documents are on 8.5/11 paper.
- Letters are assumed to be all documents less than 7 pages in length.
- For the purposes of estimating volume by ounce increment, the following paper and envelope weights are assumed.
 8.5"X11" = 0.2 oz.
 8.5"X14" = 0.254 oz.
 11"X17" = 0.4 oz.
 #10 Envelope = 0.2 oz.
 Flat Envelope = 0.4 oz.
- Revenue = Total Volume X Rate. Assumes rates after implementation of Docket No. R97-1.
- New revenue = 0.38 X Revenue (LR-1/MC98-1, p. 38)
- Existing Volume = 0.62 X Total (ibid.)
- Existing rates assume that customers would have paid the highest applicable rate for their mail pieces. For instance, customers sending First-class pieces are assumed to have paid the single-piece rates
- Rate differential is the difference between the applicable and existing rates.
- Revenue leakage = Rate differential X Existing volume

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Estimated Mailing Online Postage Revenue

Volumes ¹	% of Total	Year 2	8.5/11	8.5/14	11/17
Total Volume	100.0%	516,015			
Rapid Volume	31.0%	160,119			
Standard Volume	69.0%	355,895			
1-2 pages	67.8%	349,910	276,044	30,827	43,074
3-4 pages	10.7%	55,059	43,436	4,851	6,778
5-6 pages	9.5%	48,970	38,632	4,314	6,028
7-10 pages	3.2%	16,461	12,986	1,450	2,026
11-15 pages	1.8%	9,185	7,246	809	1,131
More than 15 pages	7.1%	36,379	28,699	3,205	4,478
Printed on 8-1/2 x 11 paper	78.9%	407,084			
Printed on 8-1/2 x 14 paper	8.8%	45,461			
Printed on 11 x 17 paper	12.3%	63,521			

Volume By Ounce Increments		Revenue Leakage											
	# Ozs ⁴	Total	8.5/11	8.5/14	11/17	Rate	Revenue	New Revenue ⁶	Revenue Leakage				
									Existing Volume ⁷	Existing Rate ⁹	Rate Differential ⁸	Leakage ¹⁰	Net Revenue
First Class Letters ³	1	122,819	99,135	10,318	13,366	\$ 0.27	\$ 33,161	\$ 12,601	76,148	\$ 0.33	\$ 0.060	\$ 4,569	\$ 8,032
	2	16,182	11,988	2,091	2,103	\$ 0.49	\$ 7,929	\$ 3,013	10,033	\$ 0.55	\$ 0.060	\$ 602	\$ 2,411
	3	1,871			1,871	\$ 0.71	\$ 1,328	\$ 505	1,160	\$ 0.77	\$ 0.060	\$ 70	\$ 435
First Class Flats	1	0	-	0	0	\$ 0.30	\$ -	\$ -					
	2	3,135	3,022	112	0	\$ 0.52	\$ 1,630	\$ 619	1,943	\$ 0.55	\$ 0.030		
	3	3,351	2,806	388	157	\$ 0.74	\$ 2,480	\$ 942	2,078	\$ 0.77	\$ 0.030	\$ 62	\$ 880
	4	3,880	3,415	151	314	\$ 0.96	\$ 3,725	\$ 1,416	2,406	\$ 0.99	\$ 0.030	\$ 72	\$ 1,343
	5	3,562	2,966	299	298	\$ 1.18	\$ 4,203	\$ 1,597	2,208	\$ 1.21	\$ 0.030	\$ 66	\$ 1,531
	6	3,354	2,966	249	140	\$ 1.40	\$ 4,696	\$ 1,785	2,080	\$ 1.43	\$ 0.030	\$ 62	\$ 1,722
	7	597	0	249	348	\$ 1.82	\$ 967	\$ 367	370	\$ 1.65	\$ 0.030	\$ 11	\$ 356
	8	527	0	249	278	\$ 1.84	\$ 969	\$ 368	326	\$ 1.87	\$ 0.030	\$ 10	\$ 358
	9	278			278	\$ 2.06	\$ 573	\$ 218	172	\$ 2.09	\$ 0.030	\$ 5	\$ 212
	10	278			278	\$ 2.28	\$ 634	\$ 241	172	\$ 2.31	\$ 0.030	\$ 5	\$ 236
	11	278			278	\$ 2.50	\$ 695	\$ 264	172	\$ 2.53	\$ 0.030	\$ 5	\$ 259
	12	278			278	\$ 2.72	\$ 756	\$ 287	172	\$ 2.75	\$ 0.030	\$ 5	\$ 282
Total First Class		160,388	126,297	14,105	19,987		\$ 63,745	\$ 24,223	\$ 99,441			\$ 5,545	\$ 18,059
Standard Mail Letters ¹	# Ozs <3.3087	313,113	246,990	27,582	38,540	\$ 0.167	\$ 52,290	\$ 19,870	194,130	0.235	\$ 0.068	\$ 13,201	\$ 6,669
Flats	<3.3087	14,416	12,955	1,112	349	\$ 0.167	\$ 2,407	\$ 915	8,938	0	\$ 0.137	\$ 1,224	\$ (310)
Piece/Pound	# Pieces >3.3087	28,965	20,774	2,657	5,534	\$ 0.105	\$ 3,041	\$ 1,156	17,958	0.16	\$ 0.059		
# Pounds		9,308	5,780	934	2,594	\$ 0.598	\$ 5,566	\$ 2,115	5,771	0.677	\$ 0.079	\$ 456	\$ 1,659
Total Standard Mail							\$ 63,305	\$ 24,056				\$ 14,881	\$ 8,019
Total Revenue							\$ 127,050	\$ 48,279				\$ 20,426	\$ 26,077

Notes:

- LR-2/MC98-1, p. 39
- Assumes that relative proportions of volume by paper size are constant for all document lengths. E.g. 78.9% of 5-6 page documents are on 8.5/11 paper.
- Letters are assumed to be all documents less than 7 pages in length.
- For the purposes of estimating volume by ounce increment, the following paper and envelope weights are assumed.
 8.5"x11" = 0.2 oz.
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 #10 Envelope = 0.2 oz.
 Flat Envelope = 0.4 oz.
- Revenue = Total Volume X Rate. Assumes rates after implementation of Docket No. R97-1.
- New revenue = 0.38 X Revenue (LR-1/MC98-1, p. 38)
- Existing Volume = 0.62 X Total (ibid.)
- Existing rates assume that customers would have paid the highest applicable rate for their mail pieces. For instance, customers sending First-class pieces are assumed to have paid the single-piece rates
- Rate differential is the difference between the applicable and existing rates.
- Revenue leakage = Rate differential X Existing volume

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Exhibit USPS-5E

Pricing Matrix

PRICING MATRIX

01	Paper (per sheet)		Contractor Price	USPS System		Premailing Fee ²
				Costs ¹	Markup	
A		8.5X11 20-lb. White Bond			25%	
B		8.5X14 20-lb. White Bond			25%	
C		11X17 20-lb. White Bond			25%	
02	Print Mode (per impression)					
A		Simplex - 8.5X11		\$ 0.001	25%	
B		Simplex - 8.5X14		\$ 0.001	25%	
C		Duplex - 8.5X11		\$ 0.001	25%	
D		Duplex - 8.5X14		\$ 0.001	25%	
03	Features (Incremental price above baseline B&W)					
A	Per impression	Spot Color			25%	
04	Finishing					
A	Per fold	Folding			25%	
B	Per staple	Stapling			25%	
C	Per finished piece	Saddle Stitch			25%	
D	Per finished piece	Tape Binding 8.5X11			25%	
E	Per finished piece	Tape Binding 8.5X14			25%	
F	Per finished piece	Apply Tabs to Self Mailer			25%	
05	Envelopes (each)					
A		#10 Envelope			25%	
B		Flat Envelope			25%	
06	Inserting (per envelope)					
A		#10 Envelope			25%	
B		Flat Envelope			25%	

Notes:

1. Exhibit USPS-2A, p. 1
2. Fee is the sum of the contractor price and USPS system costs X (1+Markup)