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

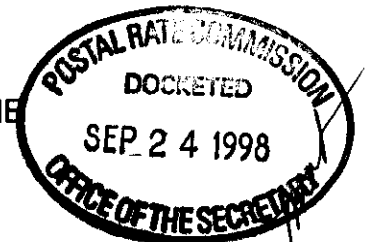
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Mailing Online Service )

POSTAL RATE COMMISSION  
Docket No. MC98-1

OFFICE OF THE CONSUMER ADVOCATE  
REPLY BRIEF  
CONCERNING MARKET TEST OF MAILING ONLINE  
(September 24, 1998)



Two points made by the Postal Service in its initial brief deserve rebutting. The Postal Service states that "[a]ctual volume-variable costs incurred during the course of the market test and experiment are relevant to evaluation of the experiment," implying that other than volume-variable costs are not relevant. Initial Brief of USPS Regarding Mailing Online Market Test (herein "USPS Brief"), September 18, 1998, at 22. The Postal Service also argues that the information system cost estimates of witness Stirewalt are "conservative." USPS Brief at 7. The OCA disputes both assertions.

At the outset, the OCA reiterates a point made in its initial brief (at 26) regarding cost information. This is a classification case. The cost information relevant to deciding whether a new service should be launched is more extensive than the cost information needed for rate setting. All costs incurred over the expected life of a new product are relevant, since the decision to launch should be based on a reasonable expectation of recovering such costs plus a profit. Even if one includes within the definition of "profit" the achievement of various nonfinancial social welfare goals (such as meeting the needs of customers poorly served by commercial entities), one still needs a complete measure of cost against which to compare benefits. The Postal Service's focus only on

volume-variable costs, to the exclusion of all other costs, "stacks the deck" in favor of its predetermined conclusion — the establishment of the Mailing Online service.

With respect to information systems, the Postal Service's confidence in the estimates of witness Stirewalt is misplaced, but more importantly, misses the point. The assumptions for information system cost estimates lack empirical support and, consequently, may not be conservative when tested against reality. Moreover, some assumptions may simply be wrong. The result in both cases is poor cost estimates. Nevertheless, whether the Postal Service's assumptions are truly conservative, or simply inaccurate or unreasonable, cannot be determined until additional information is collected and total actual costs are reported.

Toward that end, the OCA in its initial brief (at 24-30) requested that the total actual costs incurred during the development and testing of the information system for Mailing Online be collected and reported for the Commission's consideration of whether to launch Mailing Online. OCA's initial brief (at 21-24) also identified several problematic assumptions bearing on information system cost estimates, and requested (in OCA Initial Brief, Appendix A) that data be collected to verify all assumptions underlying all costs estimates.<sup>1</sup> The following is a further illumination of problems associated with the Postal Service's information system cost estimates.

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<sup>1</sup> The Postal Service's initial brief appears somewhat more forthcoming with respect to data collection, as compared to its Response to Motion of the OCA Concerning a Data Collection Plan for a Market Test of Mailing Online (herein, "Postal Service Response"), August 19, 1998. The brief reveals that "logs will be maintained of activities performed solely in support of Mailing Online systems at the print site locations and the postal data processing center." USPS Brief at 23. The brief also clarifies the Postal Service's intent to report the number of PostOffice Online help desk calls specific to Mailing

There are both acknowledged and unacknowledged methodological errors in witness Stirewalt's cost estimates. Witness Stirewalt confuses the processing center data storage needs for mail merge and non-mail merge jobs. In the capacity analysis, non-mail merge jobs are shown to be stored in Postscript format, while mail merge jobs are shown to be stored in PDF format. Tr. 3/722-23. But during oral cross-examination witness Stirewalt stated that the formats should be reversed. Tr. 3/773. The effect of this error is unclear. Data storage requirements for non-mail merge jobs (65,501,169,231 bytes) originally dwarfed the requirements for mail merge jobs (5,196,569 bytes). Tr. 3/722-23. Reversing formats would appear to alter capacity requirements by a factor of six, since Postscript files (30,720 bytes per page) are six times larger than PDF files (5,020 bytes per page).<sup>2</sup>

Certain assumptions of witness Stirewalt have been rendered obsolete by changed specifications. In developing information system cost estimates, witness Stirewalt assumed mail merge job files would be *transmitted* to the print site in Postscript format. Tr. 3/721. It was further assumed that *storage* of the files in final form would be in PDF format. Tr. 3/722. Subsequent to the analysis, the Postal Service changed specifications, whereby files would be transmitted *and* stored in PDF

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Online so as to permit a determination of "the percentage of total PostOffice Online calls this number represents." Id.

<sup>2</sup> The consequence for both data storage and telecommunications capacity requirements (and cost estimates) is further complicated by the percentage of mail merge and non-mail merge jobs. As stated in OCA's initial brief (at 22), actual data from the operations test reveal that the percentage of customer orders involving mail merge is far different from the 50 percent assumed by witness Stirewalt. See *infra*.

format.<sup>3</sup> Witness Stirewalt concedes that the Commission "would not have an accurate mathematical model of the capacity on which to compare the cost analysis."<sup>4</sup>

Some assumptions are wrong, based upon available data. Witness Stirewalt assumes that 50 percent of all print jobs would be mail merge, with the remaining 50 percent non-mail merge. Data from the operations test reveal that the actual split between mail merge and non-mail merge jobs is 15 and 85 percent, respectively.<sup>5</sup> Witness Stirewalt concedes that "[i]f the percentage is changed in any way, it would have a significant bearing" on the information systems storage capacity analysis. Tr. 3/775.

Other assumptions lack empirical support, and cast doubt on the Postal Service's claims of conservatism. Witness Stirewalt assumed the "Average Number of Concurrent Sessions During Peak Hours" to be 21.57.<sup>6</sup> This figure represents the estimated maximum number of Mailing Online customers who might access the Postal Service's web site concurrently. It is derived from the number of Mailing Online customers, the average session duration for each customer, and the length of the peak

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<sup>3</sup> Tr. 3/775. Attempts by the OCA to determine the effect of this change on telecommunications capacity requirements disclosed apparent errors in a formula for an intermediate calculation, "Number of Bytes per Business Day." The formula contains an extraneous factor and is missing several other relevant factors, as well as a "plus" sign in the middle. See OCA/USPS-T3-35, September 24, 1998.

<sup>4</sup> Id. It should be noted that this change between PDF and Postscript formats is not the same change discussed above. One change refers to an obsolete model and the other appears to reflect current actual practice. In any event, clarification via the filing of empirical data concerning data storage requirements is imperative.

<sup>5</sup> USPS-LR-6/MC98-1, "Mailing Online Report, Program Total For AP 11, 07/29/98 Draft."

<sup>6</sup> USPS-LR-1/MC98-1 at 6.

usage period. However, witness Stirewalt did not compare his estimate of 21.57 concurrent users with actual usage. Tr. 3/778.

Witness Stirewalt further assumed that the number of access ports would be sufficient to accommodate these customers. Tr. 3/777. However, the number of access ports is shared among all applications that require internet access to the Postal Service's web site in San Mateo, including Mailing Online. Id. Witness Stirewalt did not know how many access ports were available for Mailing Online.<sup>7</sup>

Nevertheless, witness Stirewalt did not consider the number of access ports "totally irrelevant." Tr. 3/779. And for obvious reasons. To the extent the actual number of concurrent users is higher than the estimate, the number of access ports is directly relevant to the capacity analysis and Mailing Online costs since more access ports would be required. A larger number of concurrent users might result from a larger number of customers, a longer average session duration, or a more condensed daily peak usage period. However, witness Stirewalt did not have any information on the daily peak usage period. Tr. 3/782. Nor did he have any information on actual session

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<sup>7</sup> Tr. 3/776. At the request of OCA counsel, and subsequent to oral cross-examination, witness Stirewalt estimated "capacity for at least 160 Mailing Online users to simultaneously up load documents" to the Postal Service's web site. Tr. 4/869. However, the San Mateo (processing center) web site receives an unknown volume of traffic devoted to uses other than Mailing Online. It is not clear from witness Stirewalt's statement whether he took this other traffic into account.

duration. Id. Both types of information, witness Stirewalt agrees, would be useful in redoing the analysis. Tr. 3/783-84.

Respectfully submitted,



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#### 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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Washington, D.C. 20268-0001  
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