TESTIMONY

OF

SUDHIR AGGARWAL

CHIEF EXECUTIVE OFFICER
ANCORA CAPITAL, INC.

ON BEHALF OF THE

National Association of Presort Mailers

BEFORE THE

PRESIDENT'S COMMISSION

ON THE

UNITED STATES POSTAL SERVICE

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My name is Sudhir Aggarwal, and I am the Chief Executive Officer of Ancora Capital. Ancora is the parent company of Presort Partners (the largest presort mailing company in southern California) and Jetsort (the largest presort mailing company in the mid-Atlantic region). Ancora was formed in 1997 to combine the vast mail-sorting capacity and expertise of several companies already in the mail-sorting business. With six locations nation-wide, Ancora companies sort approximately two billion pieces of mail annually. This makes Ancora the second largest presort mailing company in the world.

As has been noted in previous testimony to this Commission, the National Association of Presort Mailers ("NAPM"), which I am representing today along with Ancora, is a trade association of firms concerned with postal worksharing programs, especially discounts for presorted and automated First-Class mail. The members of the NAPM constitute a clear majority of independent presort companies (often referred to as "bureaus") as well as many companies that presort their own mail. Member firms currently operate in all ten postal areas and, collectively, process over 100 million pieces of mail daily in over 100 cities or about 30 billion pieces of First-Class Mail annually. Thus, NAPM's members process the overwhelming majority of the workshared First-Class mail and a significant volume of Standard Mail.

I. Worksharing is a tested and proven way for the Postal Service to partner with the private sector to the mutual benefit of everyone.

In its testimony in R2000-1, the Postal Service explained the increases in rates for Periodical Mail and Standard Mail flats by noting that it had not been as successful in automating flats as it had been in automating letter mail. Most of the Postal Service's success in automating letter mail is the result of the successful Postal Service/private-sector partnership that has come about as a result of worksharing and the innovation and efficiencies created by our industry. You have already heard that rates for workshared mail have increased less than for other classes. This is a direct result of private-public partnership between the Postal Service and the presort industry. Thus, it is especially appropriate for me to appear before you today when you are focusing on partnership opportunities for the Postal Service with private-sector organizations, because the presort mailing industry may be the oldest and best example of just such partnering.

No other segment of American business has a greater interest in the health and vitality of mail and the Postal Service than the presort mailing industry for without mail and without a healthy and vibrant Postal Service there would be no presort mailing industry. Thus, to assert that the presort mailing industry would encourage actions or the adoption of policies that were not in the best, long-term interest of the Postal Service is to simply misunderstand the close, indeed, symbiotic, relationship between the Postal Service and this industry.

II. As successful as worksharing has been, it is not perfect, and it can be both improved and expanded.

In terms of improving the existing partnership, we believe the Postal Service must expand its definition of avoided costs to include all of the costs avoided as a result of worksharing, not just the limited set of mail processing costs now considered in the rate making process. In saying this we are not disavowing the use of avoided costs as the basis for worksharing discounts. We embrace the concept of avoided costs as the basis for worksharing discounts. Nor are we contending that worksharing discounts should exceed the costs. They shouldn't! But as our testimony in many prior rate cases has demonstrated, the current discounts do not exceed the costs avoided even using the very limited measure of avoided costs currently employed by the Postal Service. If the Postal Service were to include in its measure of avoided costs all the costs avoided by worksharing, as we think it should, the current discounts would be far below the avoided costs. Thus, while we believe that worksharing discounts should not be greater than the avoided costs, we also believe that they should not be less than the avoided.

I will not address here the issues that we have litigated in past omnibus rate case over the proper calculation of mail processing costs avoided. For an explanation of the inadequacies of the Postal Service current calculation of the costs avoided by worksharing, I will, instead, refer you to the rebuttal testimony of James A. Clifton on behalf of the American Bankers Association and the National Association of Presort Mailers and the rebuttal testimony of Richard E. Bentley on behalf of the Major Mailers Association in R2001-1 and the direct and rebuttal testimony of both these witnesses in R2000-1. However, those testimonies, as important as they are in explaining the inadequacies of the Postal Service's current measure of mail processing costs avoided worksharing, they do not deal with many other avoided costs that are not currently included in the calculation of avoided costs.

Set out below are some costs the Postal Service avoids through worksharing that are no less real than the avoided costs the currently recognizes and includes in its measure of avoided costs.

(a) Capital Costs. Since the advent of automation, the presort industry has made a very substantial investment in capital equipment, systems and workspace to process workshared mail. For example, Presort Partners and Jetsort have 49 multi-line optical character readers with capacity to process over 800,000 pieces per hour and 16 barcode readers to process CASS certified address block mail. There are approximately 1000 MASS certified MLOCRs in the private sector. If the average MLOCR costs $250,000 – a very conservative estimate -- this represents an avoided capital expense of $250 million.

The substantial investment by the private sector in automated mail processing equipment has, or should have, permitted the Postal Service to correspondingly reduce its investment in the equipment, systems, and workspace, it would otherwise have to have to process the 45 billion pieces of workshared First-Class Letter mail First-Class Letter mail now processed each year by worksharing mailers.

The NAPM estimates that private-sector, work sharing mailers currently own or lease approximately 5 million square feet of workspace. This is space the Postal Service does not currently have, but would have to have to process the 45 billion pieces of workshared mail presented to it annually. If one assumes that the annual rental value of this space is at least $10 per sq. foot, this is a capital cost of more than $50 million per year not borne by Postal Service.

(b) Avoided maitenance costs. In addition to the avoided capital costs, the Postal Service is also avoiding substantial costs related to the operation and maintenance of the equipment needed to process automated workshared mail. These are costs which instead are borne by the presort industry, yet our revenue stream, reflected in the workshare discounts, does not take into account these costs the Postal Service avoids.

(c) Avoided supply costs. Postal Service is also avoiding the substantial annual cost of the supplies needed to strap and label workshared mail, which must be presented to the Postal Service in trays that are sleeved, strapped, and labeled. In addition to the equipment, facilites and labor needed to sleeve, strap, tray and prepare labels for the approximately 8.5 million trays of mail in which the 45 billion pieces of First-Class Letter mail are delivered to the Postal Service each year, the Postal Service is avoiding the cost of the strapping and labels.

(d) Automation Compatible Mail Costs. The Postal Service has effectively transferred to the presort mailing industry front-line responsibility for ensuring that 45 billion pieces of mail (nearly a quarter of all mail processed by the Postal Service) are automation compatible. Without the incentives provided for workshared mail, there would be no reason for mailers to submit mail in a form that would permit it to be automated at all much less easily. Our company alone has invested more than a million dollars in new technology to improve the read rates of Ffirst-Class mail, allowing more mail to be automated and further reducing Postal Service handling costs.

The Postal Service avoids recognizing these avoided costs by use as a benchmark for determining the costs avoided a non-existenct (hypothetical) product called "Bulk Metered Mail" which it simply assumes would be delivered to as automation compatible mail. If that were true, the Ancora and other presort companies would not have to expend the huge amounts of time and money they do expend employing scores of customer service representatives and account managers educating customers about mail quality to ensure that the mail is automation compatible. Theses efforts make it possible for the Postal Service to impose ever increasing eligibility requirements first-class mail without the corresponding need to work with its customers to make sure that their mail meets the requirements for automation mail.

What the Commission needs to understand is that the Postal Service does not include any savings from providing mail that is in fact automatable in its calculation of costs avoided by worksharing. For example, full rate First-Class Mail does not have to protect the barcode clear zone. Without the barcode clear zone, the Postal Service would have difficulty barcoding the mail on its MLOCRs. Mail in windowed envelopes provides another example. Full rate First-Class lettrer mail does not have to pass a tap test to ensure that address block seen through the window remains visable within the window. Automation mail is subject to tap testing. If the tap test causes the address to move outside the window in the envelope, the mail is not auytomation compatible and cannot be mailed at discounted rates.

Without automation workshare mailers to explain the requirements and ensure they are complied with, Postal Service would have to have its own Customer Service Represenatives and Mail Design Analysists out begging mailers to provide, out of the goodness of their hearts, automation compatble mail pieces.

(e) Distribution of Mail Transportation Equipment ("MTE"). . Workshared presorted and automation First-Class Letter mail must be entered properly faced in trays. Fullpaid First-Class letter mail can be entered in any container. Presort mailers distribute postal trays and other postal equipment to the thousands of producers of first-class mail in the country. Were it not for us, the Postal Service would have to take responsibility to distribute this equipment or be willing to accept mail without trays, which would increase handling costs. If mailers of First-Class letter mail were to even attempt, out of the goodness of their hearts, to enter their mail in trays without any worksharing discount, how would they have gotten the trays? The answer is simple, the Postal Service would have to give them the trays. Many presort bureaus receive mail from their customers in trays, of course, but those trays were provided to the mailer by presort bureaus. If it were not for presort bureaus, the Postal Service would either have to deliver the trays to mailers or ask them to pick-up trays from the Post Office, assuming they would take their mail to the Post Office rather than simply leave it on a loading dock or in a mail room to be picked by the Postal Service or simply crammed into a Postal Service letter box. Thus, to fairly measure the costs avoided by presorted and automation First-Class letter mail , the Postal Service should include the cost of providng trays and other equipment, but it doesn't.

(f) Reduction in Peak Work Time Activities The average presort bureau has about 100 customers. That means that the retail windows or back docks of most post offices would be a lot busier than they are now toward the end of the normal work day (when most mail is delivered to Post Offices by business mailers), if the 20,000 mailers who use presort bureaus were trying to get to the window or the loading dock at the end of the business day. But, without worksharing discounts, there would be no reason for mailers not to deliver their mail to the

Postal Service at the close of the regular business day, when the Postal Service is already busy trying to collect and process the collection-box letter mail on which its performance is measured and on which management bonuses depend.

Presort companies generally want to deliver their mail to the Postal Service as late in the day or evening as possible thus avoiding the hours of peak mail pick-up and processing by the Postal Service. Moreover, the mail the presort mailers enter into the mail stream is deposited at P&DCs or major postal facilities, not at Associate Offices or letter boxes. Indeed one of the common complaints presort mailoing companies have with the Postal Service is ists tendency to demand the delivery of mail to it much earleir in the evening than it is neededе. Many Postal Service facilites demand delivery of presorted and automation mail as eazrly as 8:00 p.m. even though this mail will simply sit on the dock or in side the Postal facility for six roeight housrs before it is worked. The immediate point is, however, that without the consolidation of mail effected by presort mailing companies, the increased peak work load at Postal Service facilites would require the Postal Service to build and staff much larger facilities which could accommodate the delivery of large volumes unpresorted business mail in the late afternoon and early evening. Yet the avoidance of these costs is not recognized in the discounts sought by the Postal Service for workshared mail in this case.

(g) <u>Reduced Truck Fleet</u> Another example of an avoided cost that is not included in the current calculation of avoided costs is the savings reprеserted by the reduced pick up and delivery of mail by the presort mailoing industry. Nearly every presort bureau picks up mail from customers and delivers to postal facilities, saving the Postal Service the expense – both capital and operating – of an expanded truck fleet. Most presort bureaus pick up mail from their customers. Much of this mail is mail the Postal Service would have to pick-up if it were not picked-up by presort bureaus. Many presort bureaus also deliver some or all of the mail they process to the Postal Service. These mail pick-ups and deliveries should have allowed the Postal Service to actually reduce the number of trucks in its fleet and reduce and shorten pick-up runs they would otherwise have to make to the presort mailer customers. We know, on an anecdotal level, from conversations with local postal officials that this is true, but the Postal Service has never performed the studies necessary to quantify these savings.

(h) Savings from Reduced UAA Mail. The current worksharing discounts do not include the very substantial savings generated by Move Update and other address quality work required of mail entered at the reduced (workshared) rates. Undeliverable-as-addressed ("UAA") mail, cost the Postal Service approximately $1.8 billion every year. The only mail currently required to comply with the Move Update requirements is workshared First-Class Mail. Move Update requires mailers of discounted (workshared) First-Class Mail to update the addresses using a Postal Service approved address-updating process within 180 days of the use of the address. Mailers of workshared First-Class Mail have incurred and are incurring substantial expenses to comply with the Move Update. In a Federal Register Notice published on May 31, 2002 (See, Fed. Reg., Vol 67, No 105, Friday, May 31, 2002 pp. 38041-43) the Postal Service estimated that the savings generated by Move Update are in the order of $1.2 billion per year. That's more than 2.5 cents per piece of workshared First-Class Mail, yet these savings are not included in the calculation of costs avoided by workshared First-Class Mail.

III. The Postal Service should not use it limited capital to secure facilities and equipment that the private sector can and will, with the right incentives, provide.

The Postal Service often refers to its lack of access to capital. Its inability to sell stock and its ability to borrow funds. Yet the Postal Service overlooks the power of the private sector in raising capital. The presort industry raises and spends millions each year on new equipment and facilities, and would raise more if only worksharing were expanded to include all of the costs avoided by the Postal Service as a result of that investment. The point is simply that through expanded worksharing programs the Postal Service could stimulate the private-sector to provide much of the equipment and many of the facilities the Postal Service requires. It simply makes no sense for the Postal Service to expend its limited capital resources purchasing equipment and facilities that the private-sector is prepared to provide given appropriate and mutually beneficial terms.

IV. Expanding Worksharing

Worksharing is the only tested and proven method of partnering between the Postal Service and private sector. Worksharing can reduce cost for everyone, the Postal Service and mailers of all sizes and classes. Worksharing opportunities should be expanded not limited. So, what sort of workshare expansion are we talking about here? There are many, but let me just suggest several very modest ways in which worksharing could be expanded. One of the more modest is the proposal the NAPM made in R2000-1 to create new rate category for "P" rate mail.

In R2000-1 the NAPM proposed a "P" rate . The idea was simple. Mailers would purchase sheets or rolls of "P" stamps, with the letter "P" prominently displayed on them at a price less than then current rate for regular First-Class letter mail. Mailers could also apply "P" rate postage with meters, which as the added advantage of providing a level of traceability and added security for the mail. At the time, the year 2000, the Postal Service was seeking a first ounce full rate for First-Class mail of 34 cents. We suggested that "P" rate be 32 cents, 2 cents less than the full regular First-Class stamp, but differential (discount) it could be more.

"P" rate mail would be deposited in special collection boxes with the enlarged pictures of the "P" rate stamp or meter impression displayed on all sides. These special collection boxes would be placed at convenient places by presort companies whose name would appear on the box and mail deposited in these boxes would be picked up (collected) by the company that placed the box. Daily pick-up times would be posted on "P" rate collection boxes. "P" stamps and meter imprints would be pre-canceled and the agents processing such "P" rate mail would be required to hold the permits for processing pre-canceled mail.

"P" stamps would be sold only in sheets or rolls of ten stamps or multiples of ten stamps. With meters, the fractional cent would not be a problem, of course. This would allow the "P" rate mail to have a price set in tenth of a cent instead of whole cents, thus reducing the problem posed by the "whole integer" problem confronted in every rate case.

The "P" rate mail would also bring the benefits of workshare discounts to portions of the community that could not participate in them in the past. It would lower Postal Service collection costs and present the Postal Service with a new, prebarcoded mailstream that would avoid many of the initial handling costs of current First-Class letter mail.

"P" rate mail would be presented to the Postal Service by the presort company that collected it prebarcoded and sorted to at least the highest sort rate allowed. In all likelihood, however, most "P" rate mail would be presorted to 3 digit or 5 digits level. Thus, most of this mail would avoid an initial outgoing sortation costs and possibly a secondary outgoing sortation as well. Private "P" rate collection boxes would be placed at locations negotiated between the worksharing community and the owners of property where the collection boxes are placed. Thus, churches, gasoline stations, grocery stores, schools, banks and other convenience places could all be possible collection box sites. Decentralized decision-making in the marketplace would ultimately determine the sites. Presort bureaus and other worksharing mailers would negotiate the terms for placing collection boxes at these sites which might include a sharing of the value added discount the presort company could earn by sorting "P" rate mail. In this way, the benefits of worksharing could be shared with mailers and other businesses and other community institutions such as churches, which could encourage parishioners to utilize collection boxes on their sites as it would make a contribution to church finances.

The proposal is not limited to presort bureaus, however. It extends to all organizations having a Postal Service licensed MLOCR to barcoding and sorting mail. Thus, university mail processing systems that are now in place for outgoing mailings from, and incoming mailings to, the university could easily be adapted to processing such outgoing student mail, thereby avoiding collection, pre-barcoding and presorting costs for the Postal Service.

The "P" rate mail processing system would have the practical effect (and advantage) of merging the initial processing of a large percentage of First Class single piece letter mail into the established network of bulk entry private sector presort mailers. The "P" rate concept would entail a new rate category, but would not require the establishment of a new subclass.

We do not envision that the “P” rate would quickly displace the single piece stamp and single piece mailing. We think that the "P" rate mail would catch on relatively quickly in those situations in which a household or small business sends a number of mail pieces at once. Thus, we think people would be most likely to use "P" rate mail to send invitations, holiday greeting cards or pay a number of bills at once. The use of "P" rate stamps for greeting cards could help avoid premium pay costs and peak load conditions the Postal Service experiences during the first quarter of the Postal Fiscal Year.

Another modest opportunity to expand worksharing expansion would involve expanding the value-added rebate – one of the cornerstones of the entire presort industry -- to include paying VAR on mailer-precanceled stamps, something the industry is currently proscribed from doing on first-class letter mail. This was actually allowed for a brief period of time in one location.

In the spring of 2001, a presort mailing company in Montgomery, AL, was ordered to cease and desist submitting applications for value added refunds in connection with the presentation of mailer-precanceled, live-stamped First-Class mail even though this practice had been suggested by the Montgomery, Alabama Post Office and "authorized" (or was at least known about) by the Rates and Classification Service Center in Memphis for some time.

The basis for the order to cease and desist was a determination that value added rebates ("VAR") were not authorized for mailer-pre-cancelled, live-stamped First-Class mail or any live stamped mail. I will not explain here why, as a technical matter, the determination VAR was not authorized for mailer-pre-cancelled, live-stamped First-Class mail was incorrect. That would divert attention from the critical issue which is whether VAR **should** be allowed on mailer-pre-cancelled, live-stamped First-Class mail!

The conclusion that the payment of VAR on mailer-precanceled, live-stamped First-Class mail is not authorized by the Domestic Mail Manual even if correct simply begs the question: "Why not?" As an explanation of why this practice should not be permitted, the response "because it has not been authorized" is a nonstarter. If this practice has not been authorized, then authorize it!

Even more important, however, is the question of how an organization that is so desperately in need of funds can justify terminating a practice that could earn it an additional hundred million dollars per year? The annualized "loss" from one customer in Montgomery, Alabama is in the range of $100,000. But this one customer is not the only mailer in Alabama has that could, and probably would, have elected this option if it were available. Moreover, the bureau that was briefly allowed to do this is not the only bureau with nonprofit customers that would adopt this practice if it were available.

If there were a thousand other nonprofits that would use this program, the additional revenue with virtually no additional costs could be $100 million per year. Allowing VAR for mailer-precanceled, live-stamped First-Class mail that would otherwise go at Nonprofit Standard Mail rates would more than double the per piece revenue realized by the Postal Service from 12.6 cents per piece to 26.9 cents per pieces for essentially the same service and same cost.*

In summary, whether VAR on mailer-precanceled, live-stamped First-Class mail is authorized by the DMM, isn't the question. The question is, why isn't it?

* These figures are based on pre June 30 rates and assume (1) no destination discounts even though such discounts might have been earned and would have further increased the spread between First-Class mail and Nonprofit Standard Mail and (2) the mail in both cases would have qualified at the 3-Digit rate

There are, of course, other opportunities to expand worksharing well beyond its current limits. But none of these things will occur if the Commission does not fully address the core-issues for the Postal Service and its workshare partners or if the Postal Service were to be abolished. Thus, we believe the commission should resist the siren song of total privatization of the Postal Service, and instead focus on enhancing the public-private partnership encompassed by the workshare relationships the Postal Service has with several industries, including presorters.

We fervently believe the most dramatic would be to allow the private collection and processing of full-paid first-class mail from Postal Service mailboxes. There is no reason that the private sector could not collect and process mail from existing Postal Service collection boxes and process it.

Another opportunity to reduce peak time work loads that currently require the employment of literally thousands of temporary employees would be to simply contract out some mail processing during the fall mailing season. The peak load for private mail processing occurs in January, just after the Postal Service annual fall mailing season peaks. This is due to end of year final statements, income tax information (including especially W-2s) being concentrated in January. Thus, the private sector has facilities and equipment available to assist the Postal Service manage it peak load demand that it is not currently utilizing.

In short, we believe that the Postal Service should increasingly rely upon the private sector to provide mail processing and focus its efforts instead on the last mile, the actual delivery of the mail. We believe that this approach is preferable to full privatization of the Postal Service.

While it is unclear whether the growing substitutability of electronic means for hard copy mail is more based on non-price “Schumpeterian” factors than direct price competition, a price competition response by the Postal Service such as the "P" rate system or allowing the private collection and processing of all mail would allow appears to be the best near term option available to it to confront the competition. Price competition is often a successful response to non-price competition the Postal Service needs to do every thing it can to maintain its viability. This means that over time, the Postal Service needs to keep costs increases below inflation and the best and only proven way for it to do that is to nurture and expand the partnerships it already has through worksharing with the private sector.