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

**Postal Rate and Fee Changes**

**Docket No. R2006-1**

**REBUTTAL TESTIMONY OF  
MARY P. MCCORMACK  
ON BEHALF OF  
MAJOR MAILERS ASSOCIATION**

**November 20, 2006**

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**Direct Testimony of Mary P. McCormack**  
**On Behalf of**  
**Major Mailers Association**

**I. QUALIFICATIONS AND EDUCATION**

My name is Mary P. McCormack. I am currently employed by Verizon Corporate Services Corp. as the Postal Liaison for Verizon's three Bill Print and Distribution centers located in Massapequa, NY, Richmond, VA, and Durham NC.

My career began with New Jersey Bell in 1972. While working I attended college at night and received my Bachelor of Arts degree and certification in Elementary Education and Library Science in 1976 from Kean College of New Jersey.

I have worked in several departments within Verizon and its predecessor, Bell Atlantic. For the past 25 years, I have worked in Finance Operations in various capacities, including Payroll, Benefits, Cost Recovery, Special Projects Billing, Accounts Payable where I received and maintain my certification as a Certified Accounts Payable Professional (CAPP), Projects and Estimates, and Capital Assets.

Currently I am a member of the following postal organizations:

<b><u>Organization</u></b>	<b><u>Position</u></b>
National Postal Policy Council (NPPC)	Board of Directors
Association for Mail Electronic Enhancement (AMEE)	CFO
Major Mailers Association (MMA)	Board of Directors
Mailers Technical Advisory Committee (MTAC)	Member
Women in Delivery Services	Member

I have also received the following certificates while attending the National Postal Forum in 2006: Mail Center Professional Certificate, Quality Mail Preparation Certificate, and Address Quality Specialist Certificate.

This is my first opportunity to testify before the Postal Rate Commission.

1 **II. PURPOSE AND SCOPE OF TESTIMONY**

2 The primary purpose of my testimony is to discuss the adverse impacts,  
3 for First Class Presort mailers and the postal system that would result from  
4 adoption of the American Postal Workers Union's (APWU) approach to setting  
5 First Class workshared discounts. My review of APWU witness Kathryn Kobe's  
6 testimony indicates that, as compared with the First Class workshared discounts  
7 the Postal Service is proposing, APWU proposes to reduce First Class discounts  
8 by 34 percent on average in two stages. APWU's discounts are also on average  
9 28 percent lower than the currently effective discounts. Reducing workshare  
10 discounts would disrupt the First-Class workshare mail industry.

11 As part of my testimony I will explain what First Class mailers need to do  
12 to qualify for workshare discounts and why workshare mailers need rate stability  
13 and transparency to plan for the significant ongoing investments involved in  
14 running high quality mail production centers.

15 **III. VERIZON'S BUSINESSES**

16 Verizon's operating company affiliates, (Verizon) are among the world's  
17 leading providers of communications services with over 150 million customer  
18 connections (wireline, wireless and broadband). Verizon's affiliated domestic  
19 wireline telecommunications business provides local telephone services,  
20 including broadband, in 28 states and Washington, D.C. and nationwide long-  
21 distance and other communications products and services. Verizon's affiliated  
22 domestic wireless business, operating as Verizon Wireless, provides wireless  
23 voice and data products and services to over 56 million subscribers across the  
24 United States using one of the most extensive wireless networks. Verizon  
25 Business is a leading communications provider to the federal government and  
26 serves 94 percent of Fortune 500 companies. Verizon's International segment  
27 includes wireline and wireless communications operations and investments in the  
28 Americas, the Caribbean and Europe.

29 Verizon owns and operates an expansive end-to-end global Internet  
30 Protocol (IP) network that includes over 270,000 domestic and 360,000

1 international route miles of fiber optic cable, and provides access to over 140  
2 countries worldwide. Verizon has a highly diverse workforce of 250,000  
3 employees.

#### 4 **IV. VERIZON'S USE OF FIRST CLASS MAIL**

5 Verizon uses First-Class workshared mail primarily to invoice customers  
6 for the various communications services that the company provides. When  
7 invoicing a customer by mail, Verizon includes a prebarcoded Courtesy Reply  
8 Mail, (CRM) envelope to expedite return of the customer's payment.<sup>1</sup>

9 Verizon's businesses make use of the Internet and electronic  
10 communications networks. Nevertheless, paper mail has been and for the  
11 foreseeable future likely will remain a very important element in Verizon's  
12 business strategy of maximizing customer satisfaction. Satisfying customers  
13 means providing them with choices, whether that choice is electronic  
14 presentment and payment or a paper copy of their bill in the mail.

15 To remain competitive, Verizon must control all costs, including the costs  
16 associated with generating communications service revenues. At over \$160  
17 million per year, postage already is the single largest expense category in  
18 Verizon's Services' Operations, Finance Operations budget.<sup>2</sup> There are other  
19 large capital investments associated with Bill Print and Distribution. For example,  
20 in order to prepare and mail approximately 40 million high quality mail pieces  
21 each month, Verizon must purchase and maintain numerous costly pieces of  
22 equipment. These include high-speed laser printers (approximately \$1 million  
23 each), numerous mail inserters, (approximately \$1.4 million each), and vendor

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<sup>1</sup> Verizon's CRM mail pieces are pre-approved by the Postal Service to ensure they are automation compatible. I understand that, because these mail pieces include a reliable prebarcode, they are less expensive to process than other single piece letters. In addition, these pieces are addressed to post office boxes and, therefore, incur no delivery costs.

<sup>2</sup> Verizon currently has what we call "Blue Ribbon" teams conducting feasibility studies of various measures to reduce postage expenses, including ultimately converting to a paperless environment. In essence, this process involves a bottom to top review of all Bill Print and Distribution processes and drives Strategic Projects across Verizon to prioritize, promote and implement the appropriate 'smart bill' choice for residential, business, and wireless customer bills, i.e. automatic bill payment, bill suppression, One-Bill, EFT and Web Access.

1 software (in excess of \$300,000 just for one license) to prepare and print the bill  
2 file and execute sortation software to maximize postal discounts.

3 Verizon takes its responsibilities as a high quality workshare mailer very  
4 seriously. Verizon invests significant time and money to ensure that the invoice  
5 mail it sends out conforms to the highest quality mail production standards. For  
6 example, Verizon is currently in the process of obtaining TL9000<sup>3</sup> certification for  
7 its Bill Print and Distribution operation, a process that will take more than a year  
8 to complete. TL9000 has all the requirements of ISO 9001 certification plus  
9 additional requirements to address industry specific needs. During Phase 1 of  
10 the TL9000 certification process, Verizon has come out “Best in Class” among its  
11 competitors by QuEST. The TL9000 certification contributes to Verizon’s Bill  
12 Print and Distribution operation being efficient as possible.

13 Stable and predictable postal rates are extremely important to large  
14 workshare mailers such as Verizon. It is very important for Verizon to accurately  
15 forecast expenses, including postage, in order to budget large expenditures well  
16 in advance and avoid undue risks. Accurate forecasting is essential to the large  
17 investment decisions involved in building and maintaining high volume and high  
18 quality Bill Print and Distribution operations.

## 19 **V. OVERVIEW OF VERIZON’S USE OF PRESORTED FIRST-CLASS MAIL**

20 Verizon earns workshare discounts by consistently providing the Postal  
21 Service each month with some 40 million specially designed, accurately  
22 addressed, properly prepared and sorted letters. Earning workshare discounts is  
23 not easy. In order to qualify for discounts, each Verizon mailpiece must meet a  
24 myriad of rules that concern the physical attributes of each envelope.  
25 Addressing requirements ensure that each letter bears a Postnet barcode that  
26 matches the mailpiece address, and the Postal Service’s zip + 4 code.

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<sup>3</sup> TL9000 was created by the Quality Excellence for Supplier of Telecommunications forum (QuEST). In 1996 a group of leading telecommunications service providers and suppliers initiated an effort to establish better quality, more consistent standards for the industry that have worldwide application. TL 9000 Certification establishes the requirements organizations need to address to meet customer requirements, gain quality improvements, reduce costs, and increase customer satisfaction.

1 To mail a bill to a customer, in-house software print files must contain  
2 proper formatting to ensure a clean, readable bill. Vendor software is engaged to  
3 sort for the finest depth of sequence in order to use postal discounts for carrier  
4 route, 5 digit, 3 digit, AADC & Mixed AADC automation rates. Vendor software is  
5 also used to apply the zip + 4 code to the mailpiece which is a USPS requirement  
6 to qualify for discounts.

7 To meet postal preparation requirements, Verizon sorts, sleeves, straps,  
8 and palletizes all trays of workshared mail. After the mailing is “accepted” by the  
9 Postal Service acceptance clerk assigned to Verizon’s Detached Mail Unit, we  
10 then shrink-wrap and load the palletized mail onto Postal Service trucks.<sup>4</sup>

11 To facilitate efficient acceptance of its workshared mail by the Postal  
12 Service, Verizon provides the acceptance clerk with a manifest for each mailing.  
13 After verifying that all trays are on the proper pallets, the clerk typically pulls 4  
14 trays of mail containing approximately 1,000 pieces to run through the Mail  
15 Evaluation Reader Lookup Instrument (Merlin) system that Verizon maintains on  
16 site. Using Coding Accuracy Support System (CASS) software, the Merlin  
17 system tests each mailpiece for print quality, proper location and readability of  
18 the prebarcodes, and address accuracy. Verified trays are then placed back on  
19 the original pallets and the USPS acceptance clerk completes a verification sheet  
20 with current date before Verizon employees shrink-wrap and load the pallets onto  
21 USPS trucks.<sup>5</sup>

22 In sum, worksharing at Verizon is a large scale; expensive undertaking  
23 that involves a huge investment in plant space, equipment, labor and technology.

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<sup>4</sup> In greater detail, the steps necessary to qualify for discounts are as follows: (1) all mail must be placed in trays right side up, sealed and in sequential order according to the Keyline; (2) full trays are then sleeved, strapped and sorted onto the appropriate pallet, according to the placard for that pallet, which contains the first 3 digits of the zip code; (3) full presorted pallets holding up to 48 trays of mail are then shrink wrapped; and (4) Verizon employees use heavy duty fork lifts to stage finalized pallets on the loading dock and then load them onto Postal Service trucks. Additionally, we honor local BMEU requests for additional pallet sortations or a change in the sortation scheme.

<sup>5</sup> None of these worksharing practices are documented in the DMM and a mailer relies on the local BMEU for guidance and instruction. Furthermore since these guidelines are not documented, they vary from district to district. Therefore, what may be acceptable in one BMEU facility may not be acceptable in another BMEU facility.

1 **VI. ADDITIONAL WORKSHARING TASKS THAT VERIZON PERFORMS**

2 Because Verizon can sort its mail to the finest depth, the USPS is able to  
3 “cross dock” the mail, meaning that the mail can be placed directly on an  
4 outgoing truck when it reaches the Postal Service plant which saves the Postal  
5 Service money since USPS employees do not have to break down the pallets  
6 and resort the trays onto other pallets or rolling stock. The Postal Service enjoys  
7 even greater cost savings when handling Verizon’s out-of-state mail. This mail  
8 typically avoids all processing at the local postal facility. For example, full tractor  
9 trailer truckloads of Verizon invoices produced at our Richmond, Virginia facility  
10 and destined for customers located in New Jersey routinely go directly from  
11 Verizon’s plant to New Jersey, thereby bypassing not only the Postal Service’s  
12 local facility but also one or more intermediate HASPs. The same holds true for  
13 Verizon’s Durham, North Carolina facility where we produce mail destined for  
14 customers in the Mid-west and the west coast. Trays of mail bound for these  
15 destinations are zip code sorted and palletized by state. Our employees place  
16 these pallets onto USPS trucks headed directly to the Mid-west and west coast.  
17 Despite the additional cost savings that accrue to the Postal Service, Verizon  
18 does not receive any additional workshare discounts for “cross docking,”  
19 presorting entire trucks by final destination, or palletizing the mail by state in zip  
20 code order.<sup>6</sup>

21 Current regulations applicable to workshared mailers do not require tray  
22 sorting, pallet sorting or “truck sorting”. In fact, many of these “extra” operations  
23 have been implemented at the specific request of local postal officials in the past  
24 few years. Accordingly, cost savings enjoyed by the Postal Service due to these  
25 extra steps that Verizon performs are not specifically reflected in the discounts.

26 Earning workshare discounts has become even more difficult in recent  
27 years. For example in the September 27, 2006 *Federal Register*, the Postal  
28 Service published new mailing standard changes that will require workshare

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<sup>6</sup> The Postal Service “encourages” Verizon to perform these additional worksharing tasks by suggesting that Verizon will receive better service and prompt delivery of its invoice mail. However, using “seeded” mail to test the Postal Service’s ability to meet applicable delivery standards has shown us that this has not proven true in all cases. Nevertheless, Verizon remains committed to partnering with the USPS for process improvements.

1 mailers to implement changes to existing mail preparation procedures in a very  
2 short timeframe. Complying with these changes will require mailers to incur  
3 significant IT programming expenses. These changes were not funded in  
4 Verizon's 2007 Bill Print & Distribution budget because there was no way to  
5 anticipate them. This example is typical of the Postal Service's practice of  
6 increasing a company's worksharing costs with no corresponding offset in the  
7 rates paid.

8 Similarly, in an effort to reduce Undeliverable As Addressed (UAA) mail  
9 even further, the USPS is requiring that First-Class workshared mailers purchase  
10 and deploy new software for Delivery Point Validation (DPV) of their mail pieces  
11 by the middle of 2007. Verizon, as a large mailer, agrees with the goal of  
12 minimizing UAA mail. However, we also believe that the current procedures for  
13 maintaining accurate and reliable addresses will not be significantly improved  
14 with this new software. As such, we remain unconvinced that the potential  
15 benefit justifies the extra costs for purchasing and deploying the new software.<sup>7</sup>

16 Nevertheless, workshare mailers like Verizon appear to have no choice if  
17 they want to qualify for presorted discounts. Unanticipated additional  
18 worksharing costs can be very difficult for companies to absorb particularly after  
19 budgets have been submitted and approved.

20 During the August 2006 MTAC meeting, the Postal Service announced  
21 that starting in 2009, in order to be eligible for discounts, First Class workshare  
22 mailers will be required to use the 4 State barcode. While Verizon appreciates  
23 the advance notice of this new requirement, it appears that the Postal Service is  
24 not aware of how expensive the necessary re-programming costs will be.

25 These are just some recent examples of First Class mailers having to do  
26 more work and incur more costs to qualify for postal discounts. While I am told  
27 that the Commission has made the decision not to specifically reflect Move  
28 Update cost savings in the cost savings derived from worksharing, complying

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<sup>7</sup> Preliminary testing of DPV has shown that it takes 13% longer to run the necessary address matching software. Additionally the DPV matching requirement will cause most mailers to experience some reduction of discount eligible mail. Finally, the STOP DPV processing function can adversely impact mailer production schedules and add to user processing costs as well as vendor and USPS support costs.

1 with such regulations has become increasingly complex and costly.  
2 Nevertheless, Verizon still views First Class workshare mail as a useful, cost  
3 effective tool in its overall business strategy under current rate conditions even  
4 though the number and complexity of recent changes clearly have been  
5 excessive.<sup>8</sup>

6 **VII. IMPACT OF APWU PROPOSED RATES**

7 The reduced discounts proposed by APWU will greatly change the  
8 dynamics of worksharing and the monetary benefits earned by mailers. The  
9 table below compares the currently effective discounts to those preferred by the  
10 APWU. There can be no doubt that worksharing incentives will decrease  
11 considerably under the APWU's proposal.

12 **Table I**  
13 **Comparison of Current and APWU's Preferred<sup>9</sup> Discounts**  
14 **(Cents)**

<b>First-Class Automation Category</b>	<b>Current Discounts</b>	<b>APWU Preferred Discounts</b>	<b>APWU Preferred Discounts % Change</b>
Mixed AADC	6.4	4.2	-34%
AADC	7.3	5.4	-26%
3 Digit	8.2	5.8	-29%
5 Digit	9.7	7.3	-25%
Weighted Average	8.6	6.3	-28%

15  
16 Table II compares the APWU's preferred workshared discounts to the  
17 Postal Service's proposed discounts. There can be no doubt that the APWU's

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<sup>8</sup> Standard mailers and periodical mailers have not had to implement as many changes as First Class workshare mailers. Nor are they required to certify their addresses. In my opinion, the Postal Service needs to send appropriate price signals so that discounts more equitably reflect the worksharing that mailers perform as well as the resulting benefits that accrue to the Postal Service.

<sup>9</sup> It is my understanding that APWU proposes to reach its recommended discounts over two rate cases. Approximately one half of the discount decrease would take place in this case and the remaining decrease would take place in the next rate case.

1 lower discounts will severely curtail Verizon's incentive and ability to fund its  
2 worksharing program.

3 **Table II**  
4 **Comparison of Proposed and APWU's Preferred Discounts**  
5 **(Cents)**

<b>First-Class Automation Category</b>	<b>USPS Proposed Discounts</b>	<b>APWU Preferred Discounts</b>	<b>APWU Preferred Discounts % Change</b>
Mixed AADC	7.4	4.2	-43%
AADC	8.5	5.4	-36%
3 Digit	8.9	5.8	-35%
5 Digit	10.8	7.3	-32%
Weighted Average	9.5	6.3	-34%

6  
7 Over the last decade, workshare discounts generally have increased as  
8 postage rates have increased. Maintenance of existing rate relationships sends  
9 mailers the message that their worksharing efforts are valued. Today, First Class  
10 workshared mail is a significant revenue generator for the Postal Service. MMA  
11 witness Bentley's testimony indicates that for every dollar that the Postal Service  
12 spends to process and deliver workshared mail, workshared rates produce more  
13 than three dollars of revenue. I also understand that no other category of mail  
14 contributes as much to institutional costs. This relationship tells me that  
15 workshared mail has a very positive impact on postal finances and helps to  
16 maintain a viable postal system that benefits all mailers, including those in other  
17 classes.

18 Approval of the discounts proposed by the Postal Service will send  
19 Verizon and other workshare mailers a signal that their efforts are still valued.  
20 Adoption of the discounts proposed by APWU would send exactly the opposite  
21 message, namely that their business is no longer valued. Any reduction in  
22 workshare discounts will have a negative effect on Verizon's use of First Class  
23 mail and could lead Verizon to place greater reliance on readily available, less  
24 costly alternative methods for bill presentment and payment.

1           Moreover, as previously noted, Verizon’s worksharing capabilities rely  
2 heavily on capital investment decisions made far in advance of implementation.  
3 Unnecessarily complex and contentious rate setting procedures make these  
4 types of large investment decisions uncertain and risky. To the extent that there  
5 are viable alternatives, such as electronic bill presentment and payment systems  
6 that have more transparent and controllable costs, Verizon likely will take steps  
7 to encourage customers to make greater use of these alternatives.

8           Finally, it has been Verizon’s experience that once a customer views and  
9 pays a bill electronically; the customer does not want to use the paper mail  
10 system. In that event, the Postal Service forfeits not only the revenue from  
11 Verizon’s monthly outgoing invoice but also the full single piece revenue on the  
12 incoming CRM mail piece. Since Courtesy Reply Mail contains a Postnet  
13 barcode and can be processed by USPS automation, the net revenue loss from  
14 such pieces could be substantial.

## 15 **VIII. CONCLUSIONS**

16           Verizon has maintained an excellent working relationship with the Postal  
17 Service for many years and would like to continue that cooperative relationship.  
18 Verizon strongly supports the Postal Service’s proposal for modest increases in  
19 work sharing discounts and opposes the APWUs proposal to reduce worksharing  
20 discounts dramatically. The profitable workshare mail category represents a  
21 valuable financial resource for the entire postal system. Worksharing should be  
22 preserved and encouraged, not devalued and discouraged, as adoption of  
23 APWU’s discounts would do.