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

Postal Rate and Fee Changes

Docket No. R2000-1

TESTIMONY OF RICHARD E. BENTLEY ON BEHALF OF MAJOR MAILERS ASSOCIATION

May 22, 2000

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Direct Testimony of Richard E. Bentley
On Behalf of
Major Mailers Association

I. INTRODUCTION

A. Statement of Qualifications

My name is Richard E. Bentley. I am President of Marketing Designs, Inc., a marketing and consulting firm. My business address is 9133 Ermantrude Court, Vienna VA 22182.

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff (now the Office of Consumer Advocate), I testified before the Postal Rate Commission in four separate proceedings. Since leaving the Commission, I have testified before the Commission as a private consultant in every major rate case, most recently in Docket No. R97-1, and the most recent major reclassification case, Docket No. MC95-1. A more detailed account of my 20-plus years of experience as an expert witness on postal ratemaking and classification is provided as Attachment I to this testimony.

I have been President of Marketing Designs, Inc. since 1982. Marketing Designs provides specialized marketing services to retail, commercial, and industrial concerns, as well as consulting services to a select group of private clients.

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree In Business Administration from Cornell's Graduate School of Business and Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering honor societies.

B. Purpose and Summary of Testimony

Major Mailers Association ("MMA") asked me to review the Postal Service's proposals in this case for increased rates and fees, especially the proposals that relate to First-Class Mail generally and workshare mail specifically. The purposes of my testimony are to evaluate the Postal Service's proposed rates in light of the requirements of the Act and the long-term goals of the Commission, to report my analyses of the major issues affecting First-Class presort mailers, and to present MMA's recommendations to the Commission.

One of the most important issues presented in this case involves the appropriate method for attributing costs. As it did in Docket No. R97-1, the Postal Service has proposed to modify the Commission's methodology for attributing costs to the various subclasses and services. More specifically, Postal Service witnesses purport to show that labor costs -- the major cost component -- do not vary 100 percent with volume. This aspect of the Service's case is fundamentally at odds with the Commission's consistently held position that labor costs do vary 100 percent with changes in volume,

The Service's proposal to radically change the established approach to the development of attributable costs fosters two apparent long-term objectives for the Postal Service: to reduce the level of overall attribution, thereby providing the Service more leeway and discretion in setting rates, and to reduce the level of measured cost savings for First-Class Presorted letters. I urge the Commission to reject this proposal and stand firm on its long-standing position that labor costs do vary 100 percent with changes in volume.[1]

One of the Commission's long-term goals has been to reduce the revenue target burden for First-Class mailers. The Commission has often noted its intent to recommend rates for the two largest revenue producers, First-Class and Standard Mail (A), that will result in markup indices that are at or near the system-wide average. Despite the Commission's best intentions, however, the rates recommended in the last several rate proceedings have significantly increased the relative revenue burden borne by First-Class mailers. In light of these developments, a clear and direct way to get back on track to meeting the Commission's revenue target goals for First Class and Standard Mail (A) would be to recommend that the First-Class 1-ounce stamp rate remain at 33 cents. However, I recognize that, under the circumstances presented in this case, it may be difficult for the Commission to choose that course.

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[1] In addition, I note that having to evaluate proposed rate changes under two separate costing methodologies unduly complicates all of the cost studies, and makes comparisons of subclass contributions to USPS institutional costs, as required by the Act, quite difficult.

A logical alternative is for the Commission to recommend a 1-cent increase in the basic First-Class rate, as the Postal Service requests, but find other ways to reduce the First-Class revenue burden. One reasonable solution is for the Commission to recommend modest increases in the First-Class presort discounts. I recommend this approach to the Commission, especially in light of obvious flaws in the Postal Service's proposed methodology for measuring workshare cost savings.

The Commission can also provide rate relief to First-Class mailers by modifying the rate design for additional ounces. Despite a new study that purports to measure the impact of weight on postal costs, the Postal Service once again has failed to measure the precise impact that weight has on costs. Therefore, there is no valid reason for the Commission to change its longstanding view that, in an automated environment, mail processing costs are virtually unaffected by the fact that a letter weighs 2 ounces rather than 1 ounce. Accordingly, I recommend that the rate for First-Class 2-ounce presort letters be reduced.

My final recommendation is that the Commission be especially vigilant in examining all aspects of the Postal Service's claimed cost increases in this case. The need for this scrutiny is heightened in this proceeding because $1.7 billion or approximately one half of the Service's total increased costs result from the Postal Service's proposal to increase the contingency two and one-half times, from 1% to 2.5%.

The specific MMA First-Class proposals are set forth below in Table 1.

Table 1

Comparison of USPS and MMA Proposed First Class Rates
(Cents)

	USPS Proposed Rates		MMA Proposed Rates	
First-Class Category	Discount	First Ounce	Discount	First Ounce
Single Piece		34.0		34.0
Non-Automation	2.0	32.0	2.0	32.0
Basic Automation	6.0	28.0	6.2	27.8
3-Digit Automation	0.9	27.1	1.2	26.6
5-Digit Automation	1.8	25.3	1.8	24.8
Carrier Route	0.5	24.8	0.5	24.3
Heavy Wt Discount		4.6*		4.6**
*Applies to letters weighing over 2 ounces				
**Applies to letters weighing over 1 ounce				

II. FIRST-CLASS RATE LEVELS NEED TO BE REDUCED

A. The Commission's Prior Recommendations and Considerations

The Commission has long sought to establish and maintain an equilibrium condition for the First-Class revenue target. Nevertheless, in case after case since Docket No. R84-1 the Commission has, albeit with some reluctance, recommended First-Class rates that were higher than it would like them to be. Consider the following Commission statements:

PRC Op. R87-1 (at 400 and footnote 14):

> We have chosen to recommend First-Class rates which produce a greater contribution towards institutional costs than would have been generated by our target First-Class coverage
>
> Our decision to recommend rates which result in coverage for First-Class which is somewhat above the average should be recognized as a one time variation from the historic, near average level we continue to believe best reflects the policies of the Act. In future cases we expect First-Class to return to that traditional level.

PRC Op. R90-1 (at IV-33-4, footnote 16):

> This is the second consecutive case in which we might have raised First-Class rates less, and raised third-class rates more, but for the potential impact of such increases on third-class mailers. Thus, despite our rate adjustments, the situation in which First-Class mailers are providing revenues which more properly should be provided by third-class mailers is perpetuated. We must comment that the choice between unduly burdening First-Class business and personal correspondence and imposing even greater percentage rate increases on businesses which rely on third-class for essential services is particularly difficult, and the Postal Service and mailers should be aware that the current status is consistent with the Act only as a short-term remedy.

PRC Op. R94-1 (at IV-16):

> [T]he other consequence of implementing [a reduced First-class rate] in this case would have included average rate increases of 17 percent for third-class, 24 percent for second-class regular rate, and even greater increases for the parcel subclasses in fourth-class mail . . . Rate increases of these magnitudes would cause the Commission serious concern about their effects upon mailers...The Commission regards [its] pricing recommendations as compromises, but compromises that are appropriate in view of the extraordinary considerations in operation here.

PRC Op. MC95-1 (at I-8)(citations omitted):

> The Commission has expressed its reluctance to shift too large a share of the total institutional cost burden to First-Class in several recent omnibus rate cases. The Commission's willingness to establish an additional subclass within Standard Mail should not be interpreted as a retreat from the view that the largest volume subclasses in First-Class and Standard Mail should have roughly equivalent markup indices.

The last omnibus rate case presented the Commission with the same basic issue but this time the situation was complicated by the fact that the additional revenues requested by the Postal Service were much lower than usual. The Commission's initial inclination was to hold the First-Class single piece rate at 32 cents, but found that this could not be accomplished "without imposing undue rate increases on other classes of mail." Op. R97-1 at 275. In order to reduce the First-Class burden, the Commission found that "some relief can be provided to mailers of First-Class by lowering the additional-ounce rate and restraining increases for workshared mail." (*Id.* at 276)

B. Maintaining the First-Class 1-Ounce Rate

The instant proceeding is not unlike Docket No. R97-1. The total amount of additional revenues requested by the Service -- $3.6 billion -- is not exceptionally high compared to those in the past. However, rejecting the Service's proposed 1-cent hike in the First-Class single piece rate would be difficult because of the potentially adverse impact on other mailers. In the test year, First-Class volume is expected to grow to 100 billion pieces. Thus, each penny decrease in the proposed 34-cent First Class rate represents about $1 billion of net revenue loss that would have to be made up by other classes. In other words, holding the line on the First-Class rate would mean that all other mailers would have to shoulder the burden of the entire $3.6 billion rate increase. It appears that would be very difficult for all other mailers to do. Therefore, I recommend that the Commission take the same approach it took in the last case – accept the Postal Service's proposal for a 1-cent increase in the First-Class 1-ounce rate, while lowering the resulting revenue burden on First-Class mailers by reducing the rate for additional ounces and workshared letters.

I am not saying that a 33-cent First-Class rate could not be justified. Indeed, using the traditional yardstick for comparing revenue targets, such a rate is most certainly justified in view of the Commission's past preference for First-Class and Commercial Standard (A) mailers to have roughly the same markup indices. As shown in Table 2, the markup indices for these two largest sources of postal revenues are far from being "roughly" equal. In fact, under the Service's proposed rates, the markup indices will be even further apart, with First-Class being raised from 132.0 to 145.1 and Commercial Standard Mail (A) being lowered from 95.8 to 75.9. Even if the Commission rejects the Service's 1-cent increase in the First-Class rate, the markup indices will still be further apart from what the Commission recommended in Docket No. R97-1. However, not shown in the comparisons provided in Table 2 is the possible $1.3 billion net revenue shortfall that the Service would face under such a circumstance. Therefore, based on its track record in recent cases, I expect that the Commission will be hesitant to make such a recommendation to the Board of Governors.

Table 2

Comparison of Markup Indices for First-Class and Commercial Standard (A) Mail Using the Commission's Cost Attribution Methodology

	First-Class	Commercial Standard Mail (A)
PRC Recommended R97-1	132.0	95.8
USPS Proposal R2000-1 (34 Cents)	145.0	75.9
USPS Proposal R2000-1 (33 Cents)	140.6	80.0
Source: Exhibit MMA-1B at 2A, 5 and 6		

If the Commission recommends an increase in the basic First-Class rate, it must also recognize that, overall, the First-Class revenue burden is too high and take steps to lower it. A reasonable place to start is with workshare letters, by far the "most profitable" major product offered by the Postal Service. Under the Service's proposal, presort letters, which account for only 12% of the volume variable costs, will have a 244% cost coverage, and contribute to recovery of 32% of the total institutional cost burden. This highly efficient mail also contributes 7% per piece *more* than single piece letters to institutional costs, and about three times as much as an average Commercial Standard Mail (A) mail piece.[2] This information is summarized in Table 3 below.

Table 3

Comparison of Test Year Finances at USPS Proposed Rates

Rate Category	% of Volume Variable Cost	% of Contrib to Inst. Cost	Cost Coverage	Unit Contrib to Inst. Cost
FC Single Piece	33%	34%	156%	$ 0.1555
FC Workshare	12%	32%	244%	$ 0.1667
Total First-Class	45%	66%	180%	$ 0.1608
Commercial Std Mail (A)	23%	17%	142%	$ 0.0568
Source: Exhibit MMA-1B at 2A				

[2] Under MMA's proposal for modest reductions in the rates for First-Class workshare letters, these comparisons will change very little. *See* Exhibit MMA-1B at 4.

To reduce the excessive revenue burden on First-Class mailers, I recommend the following modest increases in the discounts for workshared letters: .2 cents for Automation Basic and .3 cents for 3-Digit Automation.

Another equitable way to reduce the revenue burden on First Class is to adjust the rate for higher weight letters, particularly letters weighing over 1 ounce and up to 3.3 ounces.[3] Letters weighing up to 3.3 ounces are processed on automated equipment at little or no additional cost to the Postal Service. However, the existing additional ounce rate structure does not reflect these operational realities. As a result, higher weight letters pay a very high, disproportionate premium.

C. MMA's Proposed Solution

MMA recognizes that, in view of the large volumes involved, the Commission again likely will feel constrained to make compromises when evaluating the proposed 1-cent increase in the basic First-Class rate and the First-Class revenue requirement within the context of the entire case. Therefore, I have limited my proposals to modest changes in the Service's proposed rate discounts for presort letters and the rate for presort letters weighing between 1 and 2 ounces.

Adoption of my proposals will not achieve the Commission's goal of having "roughly equal" markup indices for First-Class and Commercial Standard (A) mailers. If the Commission accepts all of my proposals, the markup indices for First-Class and Commercial Standard Mail (A) will be 143.8 and 76.9, respectively. *See* Exhibit MMA-1B at 4A. Thus, even under MMA's proposals the unfortunate "gap" in the markup indices for First Class and Commercial Standard (A) will grow wider still from that recommended by the Commission in Docket No. R97-1.

However, adoption of my proposals will serve to mitigate somewhat the overall revenue burden on First Class and will provide well-deserved rate relief to presort mailers, who have borne a disproportionately large share of the First-Class revenue burden. If the Commission's analysis of all subclasses indicates that it can further reduce the First-Class revenue burden, it should do so consistent with its long-term goals.

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[3] The maximum weight that barcode sorters can handle is about 3.3 ounces, the weight limit for First-Class automation letters. (TR 7/3123)

III. FIRST-CLASS WORKSHARE DISCOUNTS

A. The Postal Service's Quandary For Setting Workshare Discounts

First-Class presort mail is the most important mail category within the Postal Service both in terms of its contribution to institutional costs and maintenance of a financially viable and efficient postal service. First-Class presorted letters incur just over one-third the volume variable costs as First-Class single piece letters incur, but contribute almost as much to institutional costs. *See* Exhibit MMA-1B at 2B. With an enviable record of consistently strong volume growth, the First-Class workshare program has exceeded every expectation in terms of its contribution to rate stability and the financial success the Postal Service has enjoyed over the past several years.

But now, as I see the situation, the Postal Service has a problem. On the one hand, the Service continues to limit workshare discounts in its rate proposals, perhaps because it believes that it can barcode and sort the letters currently prepared by presort mailers for less than the current discounts it offers to those mailers. On the other hand, the Service has spent billions of dollars deploying automated barcoding and sorting equipment, which is working at near capacity levels. So there appears to be a conundrum. While the Postal Service would like to limit the revenue it foregoes from presort discounts, it cannot possibly handle the additional volume that could revert back from the presorted categories to single piece.

So what does the Postal Service do? First, it seeks to further its long-term objective by narrowing further the definition of derived cost savings. Then it proposes to maintain First-Class presort discounts at current levels by simply disregarding its own witness' derived cost savings. Table 4 compares and contrasts the Postal Service's derived unit cost savings (based on the presort cost analysis presented by USPS witness Miller) and proposed discounts in this case, with the Commission's derived cost savings and recommended discounts in Docket No. R97-1.

Table 4

Comparison of First-Class Presorted Cost Savings
And Proposed Discounts
(Cents)

	PRC Docket No. R97-1		USPS Docket No. R00-1	
First-Class Category	Cost Savings	Discount	Cost Savings	Discount
Basic Automation	7.2	6.0	4.9	6.0
3-Digit Automation	0.9	0.9	1.0	0.9
5-Digit Automation	1.8	1.8	1.2	1.8
Carrier Route	0.5	0.5	0.3	0.5
Sources: Docket No. R97-1, PRC Op. at 297, USPS-T-24 at 18				

As Table 4 shows, in Docket No. R97-1 the Commission recommended a discount of 6 cents for Basic Automation presort letters based on its finding that the unit cost savings were 7.2 cents. By contrast, Postal Service witness Fronk is now proposing to maintain the 6-cent discount for Basic Automation letters even though USPS witness Miller found the workshare -related unit cost savings for Basic Automation letters was only 4.9 cents.[4]

Recognizing that his proposed discounts are much greater than the cost savings estimates provided to him, Mr. Fronk designs his proposals without limiting himself "exclusively" to cost avoidance considerations. *See* USPS-T-33 at 19.[5] In fact his proposal to maintain the current discount level appears to ignore such considerations altogether.

In order to understand why the Postal Service is making such an apparently counter intuitive proposal in this case, it is necessary to understand the real world

[4] Postal Service witness Miller subsequently updated his unit cost savings for Basic Automation letters to 5.2 cents and 5-Digit to 1.3 cents. USPS witness Fronk's proposal to leave the Basic Automation discount at 6 cents was based on USPS witness Miller's original 4.9-cent unit cost savings. (TR 12/4863)

[5] Mr. Fronk points to three major considerations for not giving effect to the specific cost savings estimates that USPS witness Miller provided to him: (1) the value of mailer worksharing, (2) the avoidance of rate impact disruptions and (3) the prebarcoding of letters by mailers. *See* USPS-T-33 at 33.

situation facing the Postal Service. The relevant facts and considerations are as follows:

- Presort letter volumes continue to grow at an unprecedented rate, while single piece volumes are stagnant at best.

- Despite an ambitious program of deploying automated processing equipment with technologically advanced barcoding functions, the Postal Service's barcoding capabilities are already at capacity. Indeed, according to USPS witness Kingsley, the Postal Service barcoding operations are working at full capacity even though the Postal Service barcodes just one-fourth of all letters,[6] far less than the Postal Service originally anticipated and likely to be even lower in the future.[7]

- Workshare mailers continue to increase their capacity to prebarcode mail by purchasing barcoding and presorting equipment.

- Presort bureaus continue to expand further and mature.

- As witness Fronk correctly attests, the Postal Service would face serious operational difficulties if large portions of workshared mail reverted back to the Postal Service for sorting and barcoding. *See* USPS-T-33 at 34 (revised); TR 21/8635-36.

These real world considerations point to one inescapable truth: the Postal Service and large First-Class presort mailers need each other.[8] As discussed below, the workshare cost savings continue to be significantly greater than the discounts offered by the Postal Service. The Commission should nurture this mutually beneficial relationship by increasing presort discounts rather than reducing them in real terms as the Postal Services proposes.

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[6] *See* TR 5/1693. In AP 13, FY 99, the Postal Service barcoded 25.6% of all letters, while mailers barcoded the remaining 74.4%. *See* USPS-T-10 at 8.

[7] With stagnant First-Class single piece volumes and growing volumes within both First-Class and Standard Mail (A) automation categories, the percentage of letters to be barcoded by the Postal Service in the test year will tend to go down even more. Certainly, even the Postal Service must be surprised that its original 1989 projection, whereby mailers would barcode just 40% of all letters, is so far off base. *See* USPS-T-10, at 8, footnote 5.

[8] Mailers want low rates and good service. The Postal service wants to provide good service at low rates.

B. Inappropriate Changes In Postal Service Costing Methods Result In Artificially Reduced Workshare Cost Savings

In Docket No. R90-1, the Postal Service argued "that the value of mailer presortation to the Postal Service is anticipated to decline" as a reason for not increasing presort discounts. *See* PRC Op. R90-1 at V-27. That dire prediction never materialized[9] and the Commission has raised the discount each time the issue was brought before it. Now, a decade later, USPS witness Fronk has issued a similar warning. Referring to USPS witness Miller's workshare cost savings study, he states, "if the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future." *See* USPS-T-33 at 20 and 27. The Commission should not heed this warning either.

In this case the Postal Service's derived workshare cost savings are, indeed, lower than those derived in the last proceeding; but only because the Service's new methodology *insures* that they will be lower. For reasons discussed below, I do not agree with Mr. Miller's methodological changes for measuring presort cost savings and, therefore, cannot agree with the conclusions Mr. Fronk drew from that analysis. I encourage the Commission to be just as cautious in evaluating Mr. Fronk's remarks, particularly in light of what has occurred in the past.[10]

C. MMA's Proposed Workshare Cost Savings

In order to estimate test year workshare savings, I generally followed the cost analysis presented by USPS witness Miller. However, I have incorporated three important changes:

1. Rather than using the Postal Service proposed cost attribution method, which assumes that labor costs do not vary 100% with volume, I used the Commission-approved cost attribution methodology from Docket No. R97-1.

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[9] The truth is that the value of worksharing has not declined over the past decade and the Postal Service has provided nothing to show that it has. Time series cost data for presort and nonpresort letters indicate that over the past 10 years, unit costs in constant dollars have decreased about the same amount. *See* Order 1289, Attachment A at 2.

[10] Mr. Fronk seems now to be backing away from that position. Subsequently, he stated "I have not alleged that the value of worksharing to the Postal Service has peaked." *See* TR 12/4730

2. Rather than accepting USPS witness Miller's proposal to disaggregate cost pools into three categories, i.e., workshare-related (proportional), workshare-related (fixed) and non-workshare related (fixed), I utilized the Commission's method from Docket No. R97-1 encompassing just the first two categories.

3. Rather than using bulk metered mail (BMM) as the benchmark from which to measure cost savings, I used metered mail letters (MML).

My analysis demonstrates that workshare cost savings are considerably higher than those derived by USPS witness Miller. Moreover, there are additional cost savings that the Postal Service realizes as a result of mailers' worksharing efforts. These related savings include cost savings that occur due to window service costs, which presort mail avoids, and downstream savings that occur because presort mailers are subjected to additional, expensive pre-certification requirements. The latter include regulations concerning move update provisions and the enclosure of pre-approved, prebarcoded reply envelopes. Consideration of these related cost savings could add well over 2 cents to derived workshared cost savings, but such costs are not included in my derivation of presort cost savings shown below in Table 5.

Table 5

MMA Derived Workshare Cost Savings
(Cents)

First-Class Category	Workshare Related Unit Cost	Benchmark Category	Workshare Related Cost Savings
Metered Mail Letters	17.29	-	
Basic Automation	10.39	Metered Mail Letters	6.91
3-Digit Automation	8.87	Basic Automation	1.52
5-Digit Automation	6.99	3-Digit Automation	1.87
CSBCS/Manual	9.63	5-Digit Automation	-
Carrier Route	9.16	CSBCS/Manual	0.47
Source: MMA-LR-1 at 2			

As shown in Table 6, my derived cost savings are slightly lower for Basic Automation, but higher for 3-Digit Automation, than the cost savings the Commission derived in Docket No. R97-1.

Table 6

Comparison of Docket No. R97-1 and MMA Unit Workshare Cost Savings
(Cents)

	Derived Workshare-Related Derived Unit Cost Savings		
First-Class Category	PRC (R97-1)	MMA	MMA Proposed Change
Basic Automation	7.20	6.91	-0.29
3-Digit Automation	0.90	1.52	0.62
5-Digit Automation	1.80	1.87	0.07
Carrier Route	0.50	0.47	-0.03

As shown in Table 7, my derived unit cost savings are higher for Basic Automation and every subsequent category than the cost savings derived by the Postal Service.

Table 7

Comparison of USPS and MMA Unit Workshare Cost Savings
(Cents)

	Derived Workshare-Related Unit Cost Savings		
First-Class Category	USPS	MMA	MMA Derived Increase
Basic Automation	5.18	6.91	1.73
3-Digit Automation	1.01	1.52	0.50
5-Digit Automation	1.28	1.87	0.59
Carrier Route	0.35	0.47	0.12

D. MMA's Proposed Changes to the Postal Service's Cost Savings Methodology

The changes that I have made to USPS witness Miller's workshare cost savings analysis are not really changes at all. I have simply followed the Commission's Docket No. R97-1 cost methodology to the extent possible, plus I have added in mail preparation costs. Below I discuss the reasons why I urge the Commission to accept my methodology for measuring workshare cost savings.

1. The Commission Should Not Adopt The USPS Cost Attribution Methodology

In this case, the Postal Service attributes costs on the assumption that labor costs do not vary 100% with volume. Although a technical analysis of the Service's proposed cost methodology is beyond the scope of this testimony, my opinion regarding the USPS proposed cost attribution methodology has not changed since the Postal Service made a similar proposal in Docket No. R97-1. The Postal Service's methodology reduces the amount of total attributable costs and runs counter to important policy goals of this Commission.

Ever since the Commission was first established, the Postal Service has endeavored to maximize its own flexibility over the pricing of postal services by minimizing the proportion of total postal costs considered to be attributable to particular subclasses and services. Achieving that objective would allow the Service to assign the "pot" of remaining costs based on the subjective criteria of the Act. In this case, application of the Postal Service's methodology reduces the overall level of cost attribution by $3.5 billion. Under the Service's methodology, these formerly attributable costs are converted to institutional costs that can be "assigned" on the basis of discretionary "pricing" judgments.

As I noted in the last case, "[I]f the Service succeeds, First-Class Mail will suffer. As the Commission knows, the Service has traditionally used its discretion over the "pot" of institutional costs to assign an excessive portion to First-Class Mail." *See* Docket No. R97-1, Exhibit MMA-T-1 at 8. The Postal Service's new costing method would also mask the use of the Commission's traditional yardsticks for evaluating the historical relationship and fairness of its proposed rates.[11]

The Service's proposed change in the accepted cost attribution methodology would also reduce the derived workshare cost savings. Executing USPS witness Miller's cost analysis but using the Commission's cost attribution methodology increases the cost savings for Automation letters by 10% to 13%. These results are shown in Table 8.

[11] These data references include cost coverages, markups and markup indices.

Table 8

Comparison of Unit Cost Savings for First-Class Automation Letters
Using Different Cost Attribution Methodologies
(Cents)

	Unit Cost Savings	Unit Cost Savings	USPS % Understatement
First-Class Category	USPS Method	PRC Method	of Cost Savings
Basic Automation	5.2	5.9	13%
3-Digit Automation	1.0	1.1	12%
5-Digit Automation	1.3	1.4	10%
Carrier Route	0.3	0.5	50%
Sources: USPS-LR-I-162A (revised 3/31/00) and USPS-LR-I-147 (revised 4/10/00)			

2. The Commission Should Not Remove Relevant Costs Pools From The Cost Savings Analysis

USPS witness Miller removes the costs found in 22 MODS cost pools from his analysis because he deems them unrelated to worksharing. Eliminating these costs, which he defines as non-workshare-related (fixed), reduces his derived cost savings by .63 cents for the Basic Automation category and by about 30% for 3- and 5-digit automation letters. The removal of such costs is inappropriate for at least two reasons.

a. Sampling Error

USPS witness Miller merely assumed that "unit costs by cost pool are accurate." He did not perform any independent analysis to confirm his belief about the accuracy of In-Office Cost System (IOCS) cost data at the MODS cost pool level. *See* TR 7/3107, 3128. That omission is troubling.

When costs from the Postal Service's data systems are disaggregated to very low levels, they tend to lose some of their accuracy. I have discussed the possibility of sampling errors with regard to lower levels of IOCS cost data in earlier dockets. *See* Docket No. R87-1, CPUM/ARF-T-1 at 45; Docket No. R90-1, CPUM/NRF-T-1 at 15. Others have echoed my concerns about how well the IOCS system separately pinpoints mail processing distribution activities for presorted and nonpresort mail. In Docket No R87-1, former Assistant Postmaster General Arthur Eden testified that the IOCS may have some problems in providing precise cost information down to specific mail processing activities. He stated, "[I]t is my understanding that the IOCS was not designed to give precise estimates at the level of disaggregation based on tallies for individual operation codes, particularly for subsegments of classes of mail." *See* Docket No. R87-1, TR 20/14,742. In the same case, Mr. Miller's current manager also expressed "reservations about how well the In-Office Cost System separately pinpoints mail processing distribution activities for presorted and nonpresort mail." *See* Docket No. R87-1, USPS-LR-E-151 at 4.

Another problem with Mr. Miller's reliance upon disaggregated cost pool data is that the cost pools have been significantly "massaged," i.e., separated by shape, having piggyback factors applied, and being projected into the test year. All these manipulations reduce the accuracy of the cost data.

In sum, all things being equal, accuracy of the final results is improved by including data from all the cost pools in the analysis. As I testified in Docket No. R87-1, "I believe the aggregate of costs across all functions is more accurate than the costs for each of the functions taken alone." Docket No. R87-1, *See* CPUM/ARF-T-1 at 45.

b. Failure to Explain Cost Differences

The cost pools that Mr. Miller eliminated from his analysis do not affect single piece and workshare letters in the same manner. In virtually every case, workshare letters cost less than single piece letters. *See* TR 7/3126. The fundamental flaw in Mr. Miller's methodology is that he cannot explain why the cost pools he elected to eliminate affect single piece and workshare letters differently.[12]

The purpose of Mr. Miller's analysis of workshare cost savings is to "isolate the savings related to the presorting and prebarcoding of First-Class Mail letters." *See* TR 7/3125. Therefore, his use of the mail flow cost models without further adjustment necessarily implies that other cost impacts caused by exogenous factors affect single piece and workshared letters similarly.[13] If this were not true, then the cost savings

[12] His attempted explanation that .16% of single piece letters, which weigh over 3.5 ounces, can cause BMM to cost a penny more than Automation letters is not very convincing. *See* TR 7/3126-7, 3177.
[13] Such an assumption inherently underlies the entire cost savings analysis, yet surprisingly, Mr. Miller is unwilling to concede this. *See* TR 7/3124-5, 3178.

resulting from workshared attributes could not be isolated. Even the Commission realized this necessary assumption. *See* PRC Op. R87-1, at 472.

But Mr. Miller acknowledged that he does not know if he succeeded in isolating the cost impact of worksharing between his BMM benchmark and the various levels of presort. *See* TR 7/3179. He admitted he has not studied the impact of exogenous factors. His excuse: he used "the best data available". *See* TR 7/3094, 3178. In my opinion, he did not use the best data available.

If exogenous factors impact single piece letters and workshare letters differently, then Mr. Miller's CRA- and model-derived unit costs do not accurately reflect just workshare cost differences, his stated goal. In other words, eliminating the cost pools Mr. Miller removed essentially invalidates his derived workshare cost savings.

However, if the exogenous factors impact single piece and workshare letters similarly, which I contend, then the observed cost differences totaling over 1.3 cents in the cost pools that Mr. Miller removed from consideration are more than likely caused by worksharing attributes. Accordingly, they should be included in, not eliminated from, the workshare cost savings analysis.

In either situation, inclusion of these cost pools in the analysis will produce a more accurate estimate of workshare cost savings. If particular costs are unrelated to worksharing, as Mr. Miller claims, and the costs affect single piece and workshare letters alike, then including the cost pools in the analysis will have no impact on the derived cost differences.

A similar conceptual costing problem arose in Docket No. R87-1 when the Commission ruled that incoming secondary costs should be removed from the workshare cost savings analysis. The cost of processing presorted letters in the incoming secondary was approximately 1 cent less than the cost of processing single piece letters, but there was no satisfactory explanation why this was so. At the time, the Commission reasoned that any cost savings resulting from mailer worksharing had already occurred before letters reached the secondary sortation. Several years later, in Docket No. MC95-1, incoming secondary costs were added back into the cost savings analysis because the Commission properly recognized that workshare activities provide cost savings through all processing operations, including the incoming secondary operation. *See* TR 7/3181; PRC Op. MC95-1 at IV-132.

There is a lesson to be learned from the Commission's experience with unexplained cost differences in the incoming secondary and Mr. Miller's failure in this case to explain 1.3 cents of cost differences in his excluded cost pools. When in doubt, it is better to leave costs in the analysis. If the cost pools are not affected by worksharing, and the cost pools are accurate, then leaving the costs in the analysis will not impact the final results.

3. The Benchmark From Which Workshare Cost Savings Are Measured Should Be Metered Mail Letters

In Docket No. R97-1, the Commission accepted BMM as the benchmark for measuring workshare cost savings. In previous rate cases, the Commission was less conservative in measuring presort cost savings.[14] A short review of the Commission's choices regarding the appropriate benchmarks is provided in Exhibit MMA-1A.

The objective of the cost savings analysis is to isolate costs that the Postal Service can avoid when mailers presort and prebarcode their own letters. In other words, benchmark letters should represent what workshared letters would be if they were not prebarcoded or presorted. It is reasonable to assume that such letters likely would still be printed and "clean." But it is unreasonable to assume that they would always be properly faced, trayed, and brought to the post office for mailing; indeed, there is ample evidence to the contrary.

Prior to the establishment of the presort discount in 1977, only about 4% of all First-Class letters were presorted. By the test year in this case, approximately 47 billion letters, representing about 47% of all First-Class letters, will be presorted. What accounts for this dramatic increase in percentage of First Class letters that are workshared? The answer lies in the evolution and maturation of the First-Class mailstream over the last 25 years.

[14] In Docket No. R84-1, the Commission stated, "[w]e are now prepared to accept reasonable assumptions in the direction of finding more, rather than fewer, cost differences. *See* PRC Op. R84-1 at 366. In Docket No. R90-1, the Commission chose not to be "conservative" in evaluating discounts in order to "enhance the Service's automation program." *See* PRC Op. R90-1 at V-20.

Initially, when workshare discounts were modest, growth in presorted mail came from those mailers that could change their mailing practices at relatively low cost. Logic dictates that the cleanest mail, sent out in bulk quantities (i.e., mail like BMM) was among the *first* type of mail to migrate to presorted mail status.

But BMM letters cannot possibly account for the tremendous growth in workshare letter volume that ensued. In fact, as presort discounts became more attractive, mailers were induced to spend more upgrading their remaining mail volumes that theretofore had not been economic to convert to presorted mail. In other words, mail that migrated from single piece to workshare rates in the early years was mail that cost less for the Postal Service to process than the mail that migrated to workshare rates in later years.

With the passage of time, presort categories began to mature and the Commission increased discounts further. Concomitantly, the type of letters migrating to presort letter status originated from a subset of First-Class single piece that was more costly for the Postal Service to process.[15] Clearly, the letters migrating in recent years are not "clean" BMM letters. Even the Commission has recognized that, as the First-Class presort mailstream matures, additional presort volumes are "more likely to come either from average-cost nonpresort mail that requires more extensive change in order to convert, or from new mail." *See* PRC Op. MC95-1 at IV-102, fn 37.

The rapid growth of the presort bureau industry provides further evidence that over the years there has been an evolution in the type of mail migrating to workshare rates. In FY 98, presort bureaus accounted for approximately 42% of all First-Class workshared letters.[16] *See* TR 21/9240-44. Mail proffered to the postal service by presort bureaus today more than likely would have been deposited in collection boxes if mailed at single piece rates. The Commission recognized this phenomenon 16 years ago in Docket No. R84-1 when it stated, "[T]he presort bureaus have extended their markets to some smaller volume users whose mail probably showed a wider variety of cost characteristics prior to conversions. *See* PRC Op. R84-1 at 364. Thus, for all practical purposes, in the current environment the "typical" mail piece migrating from

[15] I provided similar testimony on this subject 13 years ago. *See* Docket No. R87-1, CPUM/ARF-T-1 at 15.

[16] According to USPS witness Tolley, the number of presort bureaus listed on the Postal Service's web site has increased 50%, from 186 to 276, in just 2 years. *See* UPSP-T-6 at 41.

single piece to workshare rates is unlikely to possess the characteristics exhibited by BMM letters.

Furthermore, notwithstanding USPS witnesses Miller's and Fronk's unsupported assertion that BMM is still the "mail most likely to convert to workshare" (*see* TR 7/3207; TR 12/4843), the record in this case strongly suggests that BMM has become the Postal Service's dinosaur.[17] For mail that supposedly is the prime candidate for migration to the fastest growing segment of First-Class Mail, BMM is, arguably, the least studied mail. Indeed, the Postal Service cannot even confirm the existence of BMM in today's mailstream. *See* TR 21/8903-4. Moreover, Postal Service witnesses cannot even agree on why they used BMM as the benchmark.[18]

It is fundamentally illogical to assume that there are many real world mailers who choose not to take advantage of workshare discounts but still voluntarily face, tray and bring substantial volumes of mail to their local post office. Even if there are a few such mailers, it would still be unfair to "penalize" all workshare mailers, who send out 47 *billion* letters, with reduced discounts under the unsupported assumption that some voluntary worksharing would still exist if presorted mail reverted to single piece status.

There is another factor that impacts the determination of an appropriate benchmark. During the last decade, the Postal Service has made significant strides in deploying automated letter processing equipment.[19] These technological advances serve to reduce costs for all First-Class letters, but there is no doubt that the processing costs for single piece letters, which increasingly are clean, prebarcoded letters, could potentially be reduced more than BMM letters. In other words, the practical significance

[17] USPS witness Miller used BMM as his benchmark but made no independent analysis to show that BMM is the mail most likely to convert to First-Class presort, or that BMM actually exists. *See* TR 7/3207-8. USPS witness Fronk could not confirm that BMM existed either, or that the volume of existing BMM was even an important factor to justify using BMM as the appropriate benchmark from which to measure cost savings. *See* TR 12/4844, 4846, 4857,4861.

[18] USPS witness Fronk claims that BMM is appropriate because BMM "tends to have all the attributes of presortation/automation mail, except for the actual presortation or application of the barcode. *See* USPS-T-33 at 17. USPS witness Miller did not agree. *See* TR 7/3207.

[19] TR 5/2015. In the test year, 94.1% of all barcoded letters will be processed on automated equipment in the incoming secondary. *See* TR 5/2015-6, TR 5/1675. All First-Class single piece letters will have access to the new RBCS system for barcoding in the test year. *See* TR 14/5939. Finally, about 8 billion single piece letters will be prebarcoded before entering the mailstream in the test year. *See* TR 12/4787.

of using an average First-Class single piece as the benchmark, rather than BMM, will diminish over time.[20]

In summary, there are several reasons for the Commission to re-evaluate use of BMM as the benchmark. Although a strong argument could be made that an average nonpresort letter is appropriate, to be conservative I urge the Commission to adopt metered mail letters (MML) as the benchmark. Such letters are clean and usually include a typewritten address. MML letters also represent more accurately than BMM the type of mail that actually is migrating from First-Class single piece to automated rates today and will do so in the future.

Using MML, rather than BMM, as the appropriate benchmark would simply add mail preparation costs to the list of operations that are avoided by worksharing, a concept the Commission found acceptable in the past.[21]

4. Related Cost Savings Should Be Considered In Establishing First-Class Workshare Discounts

There are several other important attributes of presorted letters that are not currently reflected in the standard workshare cost savings analysis but do represent real opportunities for the Postal Service to reduce costs. These attributes include the enclosure of prebarcoded reply envelopes in presorted letters, presort mailers' compliance with new programs to ensure the accuracy of addresses, and averted window service costs.

The first two items result from Postal Service requirements that mailers must comply with in order to qualify for the discounts. Window service is simply a service that presort mailers do not use. Combined, these three special mail attributes represent additional cost savings of 2.8 cents per presorted letter.

a. Enclosed Prebarcoded Reply Envelopes

Courtesy reply envelopes enclosed in an outgoing workshared letter must meet certain automation compatibility requirements and be prebarcoded. When returned,

[20] For the test year, this difference (excluding mail preparation) is 1.32 cents using the Postal Service cost methodology and 1.57 using the Commission cost methodology.

[21] In Docket No. R87-1, the Commission included mail preparation costs in the measurement of presort savings because "fairness and equity" concerns warrant formal recognition of mail preparation cost savings for presorted mail. *See* PRC Op. R87-1, p. 472.

these envelopes present a cost savings opportunity to the Service since they can bypass the entire RBCS (barcoding) operation. Such mail saves the Postal Service almost 4 cents per piece. *See* Exhibit KE-1A. The current rate structure gives workshare mailers no credit for the prebarcode savings these reply envelopes confer on the postal system. I have estimated the total test year cost savings due to prebarcoded letters sent out at First-Class Automated rates and returned at Single Piece rates at $205 million, equivalent to .46 cents per originating First-Class automation letter. *See* MMA-LR-1 at 45.

b. Move Update Compliance

A recent Postal Service study reported that the move update programs are working and saved more than $1.5 billion in forwarding and return costs in FY 98 alone. *See* TR 21/8896-99. That study also indicated that move update programs reduced the proportion of mail requiring forwarding or return service, from 5.39% to 2.73%. These figures indicate that move update programs have been a smashing success. Based upon the percentage reduction letters that require forwarding and return service, I calculate that savings of almost .9 cents per originating workshared letter should be added to derived unit workshare cost savings. *See* MMA-LR-1 at 43.

First-Class presort mailers who have worked closely with the Postal Service to maximize the effectiveness and cost savings from the Move Update programs logically should share in those cost savings. However, the Postal Service's analysis of workshare cost savings gives presort mailers no credit for their contributions to the success of move update programs. In this regard, USPS witness Miller admitted he did not study the issue and was unfamiliar with the Postal Service's 1998 UAA study. He was not concerned that presort mailers, who helped the Postal Service achieve savings of more than $1.5 billion in the base year, were not adequately compensated in any way. *See* TR 7/3159-60, 3163, 3189.

The Commission should not ignore $1.5 billion of savings. Failure to recognize that presort mailers play a pivotal role in the success of the Move Update program, at substantial expense to themselves, would be contrary to the concept of worksharing. Worksharing is not based on a system where mailers do all the work and the Postal Service enjoys all the savings. Presort mailers are not responsible when their customers move or change address. If their positive contributions to the Move Update program help the Postal Service to avoid forwarding and return costs, it is only fair that they share in the savings they help to create.

MMA witness Harrison has a broad knowledge of UAA issues and has worked closely with the Postal Service for the past several years with the design and implementation of the Move Update program. Her testimony describes the costs and necessary procedures that First-Class mailers must follow in order to satisfy the Postal Service's Move Update requirements. *See* MMA-T-2.

c. Window Service Savings

Window service costs that presort mailers do not incur represent another, significant cost sparing opportunity for the Postal Service. While many First-Class single piece mailers purchase postage and deposit their mail at a post office window, presort mailers do not. Window service costs the Postal Service well over $700 million per year, equivalent on average, to about 1.5 cents for each single piece letter.

I have not included window service cost savings in my derivation of workshare cost savings. Nevertheless, I urge the Commission to consider them in a qualitative sense when determining the appropriate discounts for presort mail categories.

E. MMA's Proposed Workshare Discounts

Based on the derived cost savings, the additional related cost savings, and my earlier discussion concerning the USPS proposed rates and revenue targets for First-Class Mail, I recommend that the Commission increase the First-Class workshare discounts by a modest amount. The specific MMA proposed discounts and rates are provided in Tables 9 and 10, respectively. As shown, I recommend that the basic automation discount be increased by .2 cents and the 3-digit automation discount be increased by .3 cents. My recommendations for the other presort categories, non-automation, 5-digit automation and carrier route, are the same as the Postal Service's proposed discounts.

Table 9

MMA Proposed First-Class Workshare Discounts
(Cents)

First-Class Category	Total Cost Savings	Workshare-Related Cost Savings	Current Discount	MMA Proposed Discount
Basic Automation	9.7	6.9	6.0	6.2
3-Digit Automation	4.3	1.5	0.9	1.2
5-Digit Automation	4.7	1.9	1.8	1.8
Carrier Route	3.3	0.5	0.5	0.5
Source: MMA-LR-1				

Table 10

Comparison of Current and MMA Proposed First-Class Rates
(Cents)

First-Class Category	Current Rate	MMA Proposed Rate	MMA Proposed Increase
Single Piece	33.0	34.0	3.0%
Basic Automation	27.0	27.8	3.0%
3-Digit Automation	26.1	26.6	1.9%
5-Digit Automation	24.3	24.8	2.1%
Carrier Route	23.8	24.3	2.1%

The modest increases in presort discounts that I am recommending are lower than the derived cost savings, and much lower than the derived cost savings would be if I included the total related cost savings reflected in Table 9.

Under normal circumstances, the high cost coverage for First-Class as a whole, the high implicit cost coverage for presort letters, and the high derived cost savings would justify even larger presort discounts. However, in view of the large automated letter volumes to which the increased discounts will apply, I am limiting my proposed increases in the discounts at this time. Limiting increases in presort discounts assures there will be no disruption in the Service's proposed rates for other subclasses and services.

IV. FIRST-CLASS ADDITIONAL OUNCE RATE

USPS witness Fronk proposes that the extra-ounce rate for First-Class mail be increased by 1 cent, from 22 cents to 23 cents per ounce. To support his proposal, Mr. Fronk relies, in part, on a new weight study prepared by USPS witness Daniel.[22] According to Mr. Fronk, that study shows "the first additional ounce of single-piece mail adds 22.3 cents to unit costs, while the first additional ounce of presort mail adds 17.7 cents to cost." *See* USPS-T-33 at 25 (sources omitted).

A. Background On The First-Class Degressive Rate

The relationship between weight and cost for 2-ounce letters has a long, controversial history. The Commission established the first degressive rate in Docket No. R74-1 because "it reflects the characteristic that the cost of handling the first ounce is greater than that for succeeding ounces." *See* PRC Op. R74-1 at 195. Since that time, the degression amount has increased from 1 cent in 1975 to the current 11 cents, as shown in Table 11.

The controversy surrounding the specific cost of the second ounce seemed to hit a dead end in Docket No. R87-1. In that case, the Commission reiterated that its "ultimate goal is to set the degressive rate at a level to reflect cost incurrence." *See* PRC Op. R87-1 at 439. Due to the lack of any reliable evidence regarding the costs associated with the second and subsequent ounces, the Commission issued "a directive to the Postal Service that the provision of definitive empirical information on the effect of additional ounces on costs remains a desirable goal."[23] *Id.* at 443.

In that proceeding, the Commission also concluded that "letters up to two ounces for the most part can be processed on the new automation [equipment] at a cost no higher than a one-ounce letter." *See* PRC Op. R87-1 at 448. This view was reiterated in Docket No. R94-1 when the Commission stated "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces." *See* PRC Op. at V-9.

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[22] USPS witness Fronk testified that he utilized the Daniel weight study only in *aggregate* terms, in order to support his proposed First-Class additional ounce rate of 23 cents per ounce for all shapes. *See* TR 12/4874)

[23] In subsequent cases, the Postal Service failed to provide the empirical evidence requested.

Table 11

History of First-Class Additional Ounce Rate Degression
(Cents)

Date	First Ounce Rate	Add'l Ounce Rate	Amount of Degression	% Rate Reduction
9/14/75	10	9	1	10.0%
12/31/75	13	11	2	15.4%
5/29/78	15	13	2	13.3%
3/22/81	18	17	1	5.6%
11/1/81	20	17	3	15.0%
2/17/85	22	17	5	22.7%
4/3/88	25	20	5	20.0%
5/3/91	29	23	6	20.7%
1/2/95	32	23	9	28.1%
1/10/99	33	22	11	33.3%
USPS Proposed	34	23	11	32.4%

I completely agree with the Commission. As I testified in Docket No. R97-1, logic indicates the following conclusion in this regard:

> The objective of automation sorting equipment is to combine letters of similar destination into separate bins. In doing so, the non-sorted letters are read and transported along conveyor belts until they reach a particular destination bin. At this point the letters are successfully sorted. The physical sortation of this mail, if successful, is unrelated to a letter's weight. Therefore, any cost difference between sorting a one-ounce letter and a three-ounce letter is necessarily minimal.
>
> My statement is more apparent when applied to letters weighing up to two ounces rather than three ounces. *See* Docket No. R97-1, MMA-T-1 at 19 (citation omitted).

In that case, however, the Postal Service provided no relief for the Commission:

> In repeated Opinions, the Commission has urged the Postal Service and other parties to address the cost of processing additional ounces of First-Class Mail. Regrettably, the Service has again failed to respond to this request. *See* PRC Op. R97-1 at 301 (citations omitted).

It strengthened this view by stating,

> Notwithstanding the extensive supporting material the Service has filed, a glaring omission is information addressing the cost support for the First-Class mail additional-ounce rate. The Service's failure to devote attention to this long-requested review has hindered the Commission's ability to review the additional-ounce issue. *See* PRC Op. R97-1 at 271.

B. The Daniel Weight Study Contains No Reliable Information Regarding The Cost Impact Of The 2nd Ounce

The Daniel weight study presents some new data on the relationship between weight and postal costs. Her study distributes total costs by shape to various half-ounce weight increments on the basis of IOCS tallies and other distribution keys including pieces, weight and cube. However, this study still fails to address the Commission's desire for reliable information regarding the specific cost impact of the second ounce of a letter.

Initially, USPS witnesses Fronk and Daniel both claimed that the Daniel study addresses the Commission's concerns about the effect of the second ounce on mail processing costs *See* TR 4/1255, TR 12/4751, and maintained that the Daniel study "support[s] conclusions that are contrary" to those espoused by the Commission. *See* TR 4/1255, TR 12/4755-6. Subsequently, USPS witness Daniel reversed herself when she conceded that "[t]he cost study reflects all the characteristics associated with the average piece in each weight increment" and that "since [her studies] do not completely isolate for the impact of weight, they do not provide the 'specific impact of weight on costs' ...." *See* TR 4/1262.

Witness Daniel admits that, in addition to weight, her study reflects many other factors that affect costs. These factors include (1) local/nonlocal mix, (2) origin/destination pattern, (3) degree of presortation, (4) prebarcode vs. no prebarcode, (5) machinability, (6) delivery to a p.o. box vs. delivery by carrier, (7) likelihood of being undeliverable-as-addressed, and (8) likelihood of being barcoded. *See* TR 4/1263-64.

Moreover, Ms. Daniel concedes that these cost causative factors can affect costs differently for letters in varying half-ounce weight increments up to three ounces.[24] (*Id.*)

Because USPS witness Daniel failed to isolate the specific impact of weight on costs, it is not possible to conclude, as USPS witness Fronk apparently still does, that 2-ounce letters cost more than 1-ounce letters solely *because they weigh more.* Accordingly, the Daniel weight study provides no legitimate support for Mr. Fronk's proposed 1-cent increase in the first additional ounce.[25]

C. The Daniel Weight Study Cannot Properly Be Used To Support Additional Ounce Rates For First Class

As discussed above, the Postal Service's new weight study provides no specific evidence as to how much additional ounces of a First-Class letter adds to processing costs. The additional ounce rate element is supposed to reflect extra costs that are caused by additional ounces. Since the Daniel study reflects the costs of several cost-causing attributes (in addition to weight), the results, in effect, treat additional ounces as a separate subclass. Therefore, the Daniel weight study provides no appropriate basis for setting the additional ounce rate for First Class.

D. MMA's Proposed Additional Ounce Rates

In the last proceeding, I suggested that the Commission adjust the First-Class additional ounce rate structure by reducing the rate for First-Class letter-shaped mail weighing between 1 and 2 ounces. While the Commission found my proposal "not acceptable", it did find that indications of cost savings existed for heavier letters. *See* PRC Op. R97-1 at 301-2. Rather than focusing its rate reductions on just letter-shaped mail or just mail under 2 ounces, the Commission chose instead to lower the rate for all heavier pieces, regardless of weight or shape. Accordingly, the Commission rejected

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[24] A simple example would be prebarcoded reply envelopes that generally weigh less than an ounce if they merely include a check for payment. If this is true, then 2-ounce letters would rarely include prebarcoded addresses. Thus, a portion of the cost difference between 1 and 2 ounce letters obtained from the weight study is caused by the reduced number of prebarcoded envelopes present within the 2-ounce weight bracket compared to those within the 1-ounce bracket.

[25] USPS witness Fronk's proposal to increase the first additional ounce rate also perpetuates an apparent anomaly. Under First-Class current rates, the Postal Service receives more revenue from a 2-ounce automation-compatible letter than from a 1-ounce nonstandard letter. But which costs more to process? I submit that nonstandard letters, which must be processed manually, cost the Postal Service more to process than a machinable 2-ounce letter.

the Service's proposed penny increase and chose instead to leave the additional ounce rate of 22 cents per ounce unchanged.

The Commission's actions in the last case provided welcome relief, but not necessarily to the mail pieces that deserved that relief. Within the postal service, there are three broad production lines that service First-Class mail: one for letters, one for flats and one for small parcels. As the weight of a mail piece changes, so does its shape. Standard (as opposed to nonstandard) letters by definition have specific physical dimensions that assure they can be processed on automated equipment. Generally, letters meeting these dimensions can weigh up to 3.3 ounces. *See* TR 7/3123. However, many of those letters will become too thick at that point anyway, thereby undergoing a shape change from a letter to either a flat or small parcel.

My testimony concerns letters only. It is not to say that flats and small parcels do not deserve rate relief, but the impact of weight on costs for letters is far more predictable than for flats and small parcels. Consequently, I am confident that letters, not flats or small parcels, incur little or no extra cost when they weigh 2 ounces rather than 1 ounce. For this reason, my Docket No. R97-1 rate reduction proposal for 2-ounce letters was equitable in the sense that it provided relief for those pieces that deserved it the most.[26]

I recognize that the Commission has been reluctant to modify the First-Class rate structure in order to administer such a targeted rate proposal. For example, in Docket No. R87-1 the Commission noted, "[W]e find that the record supports the conclusion that uniformity in the additional ounce rate avoids the complexity that different additional ounce rates would present to a First-Class rate structure used by the general public." *See* PRC Op. R87-1 at 444. Accordingly, I have focused my attention on a proposal that brings rates more in line with costs without modifying the current uniform rate structure.

Simply put, I propose that the Commission adjust the 4.6-cent heavy weight discount currently in place for First-Class presorted letters by allowing letters weighing between 1 and 2 ounces to qualify. Such a proposal is consistent with USPS Fronk's

[26] In order to be conservative, my recommendation in Docket No. R97-1 pertained to 2-ounce letters only. I did not alter the rates proposed by the Postal Service for mail weighing 3-ounces and above.

observation "that initial additional ounces cost less for presort, but that this difference does not continue to grow as the pieces get heavier." USPS-T-33 at 31. At the same time my proposal provides specific relief for 2-ounce workshare letters that cost much less than the 22 cents that they are currently being charged.[27] Finally, as MMA witness Salls testifies, adoption of MMA's proposals will effectively eliminate a counter productive rate anomaly that currently exists between First Class and Standard (A). *See* MMA-T-3.

V. REVENUE IMPACT OF MMA'S RATE PROPOSALS

To review, MMA proposes three modifications to the Postal Service's proposed rates: (1) lower the First-Class Automation Basic first-ounce rate by .2 cents, (2) lower the First-Class Automation 3-digit first-ounce rate by .3 cents, and (3) extend the First-Class workshare heavy-weight discount from letters weighing over 2 ounces to letters weighing over 1 ounce. The potential revenue impact of MMA's proposals is summarized in Table 12.

Table 12

Revenue Reduction From MMA's First-Class Rate Proposals
($000)

First-Class Rate Category	Reduced Revenues: First-Ounce Rate Reduction	Reduced Revenues: Second-Ounce Rate Reduction	Potential Revenue Reduction
Non-Automation	$ -	$ 2,610	$ 2,610
Basic Automation	$ 11,241	$ 5,672	$ 16,914
3-Digit Automation	$ 122,541	$ 24,733	$ 147,274
5-Digit Automation	$ 61,814	$ 12,476	$ 74,290
Carrier Route	$ 7,724	$ 1,559	$ 9,283
Total	$ 203,320	$ 47,050	$ 250,370
Source: Exhibit MMA-1C			

[27] While MMA's proposal does not solve the Commission's broad concerns about the degressive rate, it is workable within the confines of this proceeding and revenue requirement.

The proposed revenue reduction of $250 million from the Service's revenue target is not insignificant. However, this revenue reduction is a maximum potential loss, since any new volumes attracted by the lower (and still very profitable) First-Class presorted rates will reduce the revenue shortfall. This is even more apparent for presort volumes since such pieces make such a disproportionately large contribution to recovery of institutional costs as a result of the extremely high cost coverage for presorted letters.

I also suggest that this revenue shortfall not be made up by other mailers, but by reducing the Postal Service's contingency allowance. The contingency was established to provide a reserve for expenses that can neither be foreseen nor prevented. As proposed, the Postal Service has requested an extraordinary amount in contingency "costs" compared to the amount of additional revenues required to cover actual costs. For example, the Postal Service's entire rate request raises about $3.6 billion in additional contributions to institutional costs. Of this amount, $1.9 billion represents anticipated cost increases and $1.7 billion represents contingency costs. Therefore, the Postal Service's anticipated cost increases could be too low by 85% and its requested contingency would still enable it to break even. This contrasts to the 33% "cushion" the Postal Service requested and the Commission approved in Docket No. R97-1. I believe the 2.5% contingency costs, which is two-and-a-half times the contingency allowance from Docket No. R97-1, should be lower.[28]

For illustrative purposes, I have determined that a contingency allowance of 2 would enable the Postal Service to break even with MMA's rate proposals for more equitable First-Class rates.

[28] Witness Lawrence Buc provides convincing testimony to support maintenance of the contingency at the Docket No. R97-1 level of 1%.

VI. CONCLUSION

The Commission is at another crossroads with respect to First-Class rates. Once again the Postal Service is attempting to test the Commission's resolve by significantly increasing the gap between First-Class and Commercial Standard (A) mailers. And once again the Postal Service is attempting to overcharge those mailers within First-Class who contribute the most by far to its financial stability. First-Class presort mailers want the Service to succeed, but all mailers must share the responsibility of keeping the Postal Service afloat. Presort mailers have invested heavily in equipment and must know the direction in which their future lies. They wait anxiously in this case for the Commission to point the way.

First-Class presort mailers need to know if the Commission is serious about maintaining discounts that are viable for the long term. They believe they can share the Service's workload, and perform those operations at less cost. They have been doing so for years. All they ask is that the Commission see through the Postal Service's charade. The threat of shrinking presort savings is a smokescreen simply to increase the already heavy, unfair financial burden that First-Class presort mailers are bearing. It is time for the Commission to recognize this by rejecting the Service's workshare cost savings analysis and providing presort mailers with well-deserved rate relief in the form of modest increases in First-Class presort discounts and an extension of the heavy-weight discount to presort letters weighing under 2 ounces.

QUALIFICATIONS OF RICHARD BENTLEY

Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates and operations. As a witness on behalf of the Officer of the Commission, Mr. Bentley testified before the Postal Rate Commission in five separate proceedings. In Docket No. MC73-1, Mr. Bentley filed rebuttal testimony concerning the Postal Service's bound printed matter proposal.

In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals to establish local First-Class rates and to eliminate third-class single piece as a separate subclass. With regard to the latter, it is interesting to note that 20 years later, the Commission has eliminated this subclass as one of its recommendations in Docket No. R97-1.

In Docket No. R77-1, Mr. Bentley presented proposed rates for all classes of mail and services, including the projected volumes that would result from those rates. He also analyzed the rates proposed by the Postal Service and critiqued the volume projections presented in support of its proposals.

First-Class presort discount. At that time Mr. Bentley presented a methodology for estimating cost differences between processing First-Class single piece and presorted letters that eventually become the foundation for the Commission's "Appendix F" methodology for supporting First-Class presorted discounts.

In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package System concerning a proposed special rate increase for parcel post. In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley recommended and supported various rate discount proposals for presorted First-Class mail, and a lower fee for "BRMAS" business reply mail.

In Docket No. R94-1, Mr. Bentley testified on behalf of Major Mailers Association with respect to several issues that concerned First-Class rates. These included the relationship between the proposed cost coverages for First and third class, the rates for First-Class incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery carrier out-of-office cost methodology. In addition, Mr. Bentley worked on behalf of Brooklyn Union Gas to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected, although he did not file any formal testimony.

In Docket Nos. MC95-1 and MC96-3, Mr. Bentley again represented Major Mailers Association. In Docket No. MC95-1 he endorsed the overall classification concept proposed by the Postal Service for First-Class Mail and suggested that the First-Class second and third ounce rate be reduced for letter-shaped pieces. In Docket No. MC96-3, Mr. Bentley compared the attributable costing approaches between the Postal Service and Commission and asked that the Commission require the Postal Service to provide the impact of proposed changes utilizing established attributable cost methodologies. This testimony was the impetus for Docket No. RM97-1 and resulted in the Commission amending Rule 54(a)(1) to require the Postal Service to make such a cost presentation.

In the last omnibus rate case, Mr. Bentley represented both Major Mailers Association and the Brooklyn Union Gas Company with two separate pieces of testimony. For Major Mailers, he recommended that the Commission reject the Postal Service's newly proposed cost attribution methodology, increase First-Class discounts and offer a reduced rate for 2-ounce First-Class letters. For Brooklyn Union, he endorsed the Postal Service's Prepaid Reply Mail concept, but asked the Commission to alter it slightly with two modifications.

In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University. The following year Mr. Bentley was awarded a Master's degree in Business Administration from Cornell's graduate School of Business and Public Administration (now the Johnson Graduate School of Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu Engineering Honor Societies.

EXHIBIT MMA-1A

Summary of Commission's Actions on the Benchmark from which to Measure Workshare Cost Savings

Summary of Commission's Actions on the Benchmark from which to Measure Workshare Cost Savings

Docket No.	Benchmark	Commission Action
R80-1	Avg Nonpresorted Letters (Proposed)	Rejected CRA cost difference methodology because of the unknown impact of exogenous factors that affected the derived unit costs
R84-1	Avg Nonpresorted Letters (Proposed)	Accepted the CRA cost difference methodology but reduced the relevant costs from all Segment 3/4 labor costs to five major mail processing operations; excluded mail preparation costs;
R87-1	Avg Nonpresorted Letters	Utilized the same methodology but removed incoming secondary costs from the analysis while adding mail preparation costs; concluded that the impact exogenous factors that affect costs was small.
R90-1	Avg Nonpresorted Letters	Used the same general methodology as R87-1
R94-1	Not Applicable	Not Applicable
MC95-1	Avg Nonpresorted letter	Changed to a bottoms-up mail flow cost estimating methodology, tied to CRA costs; Decided to include incoming secondary and delivery costs, but exclude transportation, "other" costs and the contingency; Suggested that bulk meter mail might be a better benchmark.
R97-1	Bulk Metered Mail	Used the same general methodology as MC95-1 tied to CRA cost pools for mail processing and delivery.

Exhibit MMA-1B

Summary of Estimated USPS Test Year Finances Under Various Assumptions

Summary of Estimated Test Year After Rates Finances at USPS Proposed Rates
(USPS Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)	Proposed Increase (10A) / (10B) (13)	Volume Variable Cost Without Contingency (1) / 1.025 (14)	Contingency (1) - (14) (15)	Proposed Increase In Revenue Contribution (5A) - (5B) (16)
First-Class Mail																
Single-Piece Letters	13,326,042	32.68%	22,913,594	171.9%	9,587,552	34.41%	71.9%	105.30%	52,877,658	0.4333	0.2520	0.1813	3.4%	13,001,017	325,025	689,259
Presort and Automation Letters	5,019,464	12.31%	13,252,350	264.0%	8,232,886	29.55%	164.0%	240.07%	46,979,736	0.2821	0.1068	0.1752	3.8%	4,897,038	122,426	500,002
Total Letters	18,345,506	44.99%	36,165,944	197.1%	17,820,438	63.96%	97.1%	142.18%	99,857,394	0.3622	0.1837	0.1785	3.5%	17,898,055	447,451	1,189,261
Single-Piece Cards	539,919	1.32%	603,902	111.9%	63,983	0.23%	11.9%	17.35%	2,770,783	0.2180	0.1949	0.0231	4.9%	526,750	13,169	26,268
Presort and Automation Cards	168,958	0.41%	448,787	265.6%	279,829	1.00%	165.6%	242.41%	2,670,168	0.1681	0.0633	0.1048	5.2%	164,837	4,121	15,970
Total Cards	708,877	1.74%	1,052,689	148.5%	343,812	1.23%	48.5%	70.99%	5,440,951	0.1935	0.1303	0.0632	5.0%	691,587	17,290	42,237
Total First-Class Mail	19,054,383	46.72%	37,218,633	195.3%	18,164,250	65.19%	95.3%	139.53%	105,298,345	0.3535	0.1810	0.1725	3.6%	18,589,642	464,741	1,231,498
Priority Mail	3,064,062	7.51%	5,542,259	180.9%	2,478,197	8.89%	80.9%	118.38%	1,249,750	4.4347	2.4517	1.9830	15.0%	2,989,329	74,733	511,747
Express Mail	480,984	1.18%	1,068,567	222.2%	587,583	2.11%	122.2%	178.80%	72,301	14.7794	6.6525	8.1269	3.9%	469,253	11,731	44,717
Mailgrams	1,000	0.00%	1,136	113.6%	136	0.00%	13.6%	19.85%	3,340	0.3400	0.2994	0.0406	0.0%	976	24	(9)
Periodicals		0.00%														
Within County	81,397	0.20%	81,847	100.6%	450	0.00%	0.6%	0.81%	862,061	0.0949	0.0944	0.0005	8.6%	79,412	1,985	6,392
Outside County	2,384,191	5.85%	2,416,926	101.4%	32,735	0.12%	1.4%	2.01%	9,459,105	0.2555	0.2521	0.0035	12.7%	2,326,040	58,151	282,126
Total Periodicals	2,465,588	6.05%	2,498,774	101.3%	33,186	0.12%	1.3%	1.97%	10,321,166	0.2421	0.2389	0.0032	12.6%	2,405,452	60,136	288,518
Standard Mail (A)																
Regular	6,823,933	16.73%	9,070,437	132.9%	2,246,504	8.06%	32.9%	48.19%	40,998,656	0.2212	0.1664	0.0548	9.4%	6,657,496	166,437	718,379
Enhanced Carrier Route	2,471,864	6.06%	5,162,024	208.8%	2,690,160	9.66%	108.8%	159.29%	32,828,211	0.1572	0.0753	0.0819	5.0%	2,411,575	60,289	181,450
Total Commercial	9,295,797	22.79%	14,232,461	153.1%	4,936,664	17.72%	53.1%	77.73%	73,826,867	0.1928	0.1259	0.0669	7.6%	9,069,070	226,727	899,829
Nonprofit	1,320,611	3.24%	1,543,087	116.8%	222,476	0.80%	16.8%	24.66%	11,425,579	0.1351	0.1156	0.0195	6.6%	1,288,401	32,210	89,935
Enhanced Carrier Route	208,577	0.51%	264,218	126.7%	55,641	0.20%	26.7%	39.05%	2,851,875	0.0926	0.0731	0.0195	15.9%	203,490	5,087	35,589
Total Nonprofit	1,529,188	3.75%	1,807,305	118.2%	278,117	1.00%	18.2%	26.62%	14,277,454	0.1266	0.1071	0.0195	7.9%	1,491,891	37,297	125,524
Total Standard Mail (A)	10,824,985	26.54%	16,039,766	148.2%	5,214,781	18.72%	48.2%	70.51%	88,104,321	0.1821	0.1229	0.0592	7.5%	10,560,961	264,024	1,025,353
Standard Mail (B)																
Parcel Post	1,052,158	2.58%	1,211,453	115.1%	159,295	0.57%	15.1%	22.16%	374,096	3.2383	2.8125	0.4258	2.3%	1,026,496	25,662	39,697
Bound Printed Matter	479,204	1.18%	563,443	117.6%	84,239	0.30%	17.6%	25.73%	524,743	1.0738	0.9132	0.1605	18.1%	467,516	11,688	85,109
Special Rate	301,195	0.74%	338,764	112.5%	37,569	0.13%	12.5%	18.26%	205,789	1.6462	1.4636	0.1826	4.9%	293,849	7,346	14,784
Library Rate	47,444	0.12%	49,672	104.7%	2,228	0.01%	4.7%	6.87%	28,432	1.7470	1.6687	0.0784	4.5%	46,287	1,157	2,006
Total Standard Mail (B)	1,880,001	4.61%	2,163,332	115.1%	283,331	1.02%	15.1%	22.06%	1,133,060	1.9093	1.6592	0.2501	7.0%	1,834,147	45,854	141,596
Penalty						0.00%			348,543							
Free-for-the-Blind	40,348	0.10%	0	0.0%	(40,348)	-0.14%			56,675	0.0000	0.7119	-0.7119		39,364	984	(46)
Total Domestic Mail	37,811,351	92.72%	64,532,466	170.7%	26,721,115	95.91%	70.7%	103.44%	206,587,501	0.3124	0.1830	0.1293	5.8%	36,889,123	922,228	3,243,374
International Mail	1,429,916	3.51%	1,747,558	122.2%	317,642	1.14%	22.2%	32.51%	1,031,627	1.6940	1.3861	0.3079	3.8%	1,395,040	34,876	50,509
Total All Mail	39,241,267	96.23%	66,280,024	168.9%	27,038,757	97.05%	68.9%	100.85%	207,619,128	0.3192	0.1890	0.1302	5.7%	38,284,163	957,104	3,293,883
Special Services																
Registry	85,204	0.21%	94,993	111.5%	9,789	0.04%	11.5%	16.82%	11,174	8.5013	7.6252	0.8761	20.7%	83,126	2,078	17,625
Certified Mail	461,746	1.13%	577,361	125.0%	115,615	0.41%	25.0%	36.65%	274,934	2.1000	1.6795	0.4205	50.0%	450,484	11,262	196,521
Insurance	76,638	0.19%	106,070	138.4%	29,432	0.11%	38.4%	56.21%	44,680	2.3740	1.7153	0.6587	20.9%	74,769	1,869	18,019
COD	14,992	0.04%	19,968	133.2%	4,976	0.02%	33.2%	48.58%	3,544	5.6343	4.2302	1.4041	9.7%	14,626	366	1,707
Money Orders	153,995	0.38%	305,488	198.4%	151,493	0.54%	98.4%	143.99%	226,435	1.3491	0.6801	0.6690	9.9%	150,239	3,756	22,633
Stamped Cards	3,444	0.01%	8,317	241.5%	4,873	0.02%	141.5%	207.10%	415,873	0.0200	0.0083	0.0117	100.0%	3,360	84	3,859
Stamped Envelopes	12,544	0.03%	16,041	127.9%	3,497	0.01%	27.9%	40.81%	400,000	0.0401	0.0314	0.0087	28.2%	12,238	306	3,524
Box/Caller Service	589,226	1.44%	814,060	138.2%	224,834	0.81%	38.2%	55.85%	17,958	45.3313	32.8113	12.5200	10.8%	574,855	14,371	75,468
Other	141,324	0.35%	419,918		278,594	1.00%								137,877	3,447	22,789
Total Special Services	1,539,113	3.77%	2,362,217	153.5%	823,104	2.95%	53.5%	78.28%	1,394,598					1,501,574	37,539	362,145
Total Mail & Services	40,780,380	100.00%	68,642,241	168.3%	27,861,861	100.00%	68.3%	100.00%	207,619,128	0.3306	0.1964	0.1342	6.0%	39,785,737	994,643	3,656,029
Other Costs	27,978,701													27,296,294	682,407	
Other Income			383,847													
Prior Years Loss Recovery	268,257													268,257	-	
Continuing Appropriations			67,093													
Investment Income			(27,621)													
Grand Total	69,027,338		69,065,560		38,222									67,350,287	1,677,051	

Sources: Exhibit USPS-32B (Revised 4/21/00), Response of Witness Mayes to POIR No. 1 (Question 4 at 2) (revised 4/21/00)

EXHIBIT MMA-1B
Page 1B

Summary of Estimated Test Year Before Rates Finances
(USPS Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)	Volume Variable Cost Without Contingency (1) / 1.025 (13)	Contingency (1) - (13) (14)
First-Class Mail														
Single-Piece Letters	13,408,525	32.19%	22,306,818	166.4%	8,898,293	36.76%	66.4%	114.18%	53,213,828	0.4192	0.2520	0.1672	13,081,488	327,037
Presort and Automation Letters	5,050,613	12.13%	12,783,497	253.1%	7,732,884	31.95%	153.1%	263.43%	47,047,898	0.2717	0.1074	0.1644	4,927,427	123,186
Total Letters	18,459,138	44.32%	35,090,315	190.1%	16,631,177	68.71%	90.1%	155.02%	100,261,726	0.3500	0.1841	0.1659	18,008,915	450,223
Single-Piece Cards	554,794	1.33%	592,509	106.8%	37,715	0.16%	6.8%	11.70%	2,850,850	0.2078	0.1946	0.0132	541,262	13,532
Presort and Automation Cards	172,879	0.42%	436,738	252.6%	263,859	1.09%	152.6%	262.61%	2,734,081	0.1597	0.0632	0.0965	168,662	4,217
Total Cards	727,673	1.75%	1,029,247	141.4%	301,574	1.25%	41.4%	71.31%	5,584,931	0.1843	0.1303	0.0540	709,925	17,748
Total First-Class Mail	19,186,811	46.07%	36,119,562	188.3%	16,932,751	69.95%	88.3%	151.84%	105,846,657	0.3412	0.1813	0.1600	18,718,840	467,971
Priority Mail	3,263,396	7.84%	5,229,846	160.3%	1,966,450	8.12%	60.3%	103.68%	1,356,715	3.8548	2.4054	1.4494	3,183,801	79,595
Express Mail	476,631	1.14%	1,019,497	213.9%	542,866	2.24%	113.9%	195.97%	71,641	14.2306	6.6530	7.5776	465,006	11,625
Mailgrams	991	0.00%	1,136	114.6%	145	0.00%	14.6%	25.11%	3,340	0.3400	0.2967	0.0433	967	24
Periodicals							-100.0%	-172.06%						
Within County	82,227	0.20%	76,286	92.8%	(5,941)	-0.02%	-7.2%	-12.43%	872,194	0.0875	0.0943	-0.0068	80,221	2,006
Outside County	2,415,778	5.80%	2,166,387	89.7%	(249,391)	-1.03%	-10.3%	-17.76%	9,556,551	0.2267	0.2528	-0.0261	2,356,857	58,921
Total Periodicals	2,498,005	6.00%	2,242,673	89.8%	(255,332)	-1.05%	-10.2%	-17.59%	10,428,745	0.2150	0.2395	-0.0245	2,437,078	60,927
Standard Mail (A)														
Regular	7,125,095	17.11%	8,653,220	121.4%	1,528,125	6.31%	21.4%	36.90%	42,783,773	0.2023	0.1665	0.0357	6,951,312	173,783
Enhanced Carrier Route	2,527,785	6.07%	5,036,496	199.2%	2,508,711	10.36%	99.2%	170.76%	33,630,517	0.1498	0.0752	0.0746	2,466,132	61,653
Total Commercial	9,652,880	23.18%	13,689,715	141.8%	4,036,835	16.68%	41.8%	71.95%	76,414,291	0.1792	0.1263	0.0528	9,417,444	235,436
Nonprofit	1,326,100	3.18%	1,458,641	110.0%	132,541	0.55%	10.0%	17.20%	11,510,795	0.1267	0.1152	0.0115	1,293,756	32,344
Enhanced Carrier Route	212,388	0.51%	232,440	109.4%	20,052	0.08%	9.4%	16.24%	2,907,206	0.0800	0.0731	0.0069	207,208	5,180
Total Nonprofit	1,538,488	3.69%	1,691,081	109.9%	152,593	0.63%	9.9%	17.07%	14,418,001	0.1173	0.1067	0.0106	1,500,964	37,524
Total Standard Mail (A)	11,191,368	26.87%	15,380,796	137.4%	4,189,428	17.31%	37.4%	64.41%	90,832,291	0.1693	0.1232	0.0461	10,918,408	272,960
Standard Mail (B)							-100.0%	-172.06%						
Parcel Post	1,078,203	2.59%	1,197,801	111.1%	119,598	0.49%	11.1%	19.09%	378,447	3.1650	2.8490	0.3160	1,051,905	26,298
Bound Printed Matter	493,424	1.18%	492,554	99.8%	(870)	0.00%	-0.2%	-0.30%	541,976	0.9088	0.9104	-0.0016	481,389	12,035
Special Rate	304,846	0.73%	327,631	107.5%	22,785	0.09%	7.5%	12.86%	208,687	1.5700	1.4608	0.1092	297,411	7,435
Library Rate	48,295	0.12%	48,517	100.5%	222	0.00%	0.5%	0.79%	29,009	1.6725	1.6648	0.0076	47,117	1,178
Total Standard Mail (B)	1,924,768	4.62%	2,066,503	107.4%	141,735	0.59%	7.4%	12.67%	1,158,118	1.7844	1.6620	0.1224	1,877,822	46,946
Penalty						0.00%	-100.0%	-172.06%	348,543					
Free-for-the-Blind	40,302	0.10%	0	0.0%	(40,302)	-0.17%	-100.0%	-172.06%	56,675	0.0000	0.7111	-0.7111	39,319	983
Total Domestic Mail	38,582,272	92.64%	62,060,012	160.9%	23,477,740	96.99%	60.9%	104.70%	210,102,726	0.2954	0.1836	0.1117	37,641,241	941,031
International Mail	1,473,998	3.54%	1,741,131	118.1%	267,133	1.10%	18.1%	31.18%	1,066,939	1.6319	1.3815	0.2504	1,438,047	35,951
Total All Mail	40,056,270	96.18%	63,801,143	159.3%	23,744,873	98.10%	59.3%	101.99%	211,169,665	0.3021	0.1897	0.1124	39,079,288	976,982
Special Services														
Registry	89,271	0.21%	81,435	91.2%	(7,836)	-0.03%	-8.8%	-15.10%	11,563	7.0427	7.7204	-0.6777	87,094	2,177
Certified Mail	494,945	1.19%	414,039	83.7%	(80,906)	-0.33%	-16.3%	-28.13%	295,742	1.4000	1.6736	-0.2736	482,873	12,072
Insurance	78,162	0.19%	89,575	114.6%	11,413	0.05%	14.6%	25.12%	45,610	1.9639	1.7137	0.2502	76,256	1,906
COD	15,104	0.04%	18,373	121.6%	3,269	0.01%	21.6%	37.24%	3,576	5.1379	4.2237	0.9141	14,736	368
Money Orders	159,605	0.38%	288,465	180.7%	128,860	0.53%	80.7%	138.91%	234,993	1.2275	0.6792	0.5484	155,712	3,893
Stamped Cards	3,444	0.01%	4,458	129.4%	1,014	0.00%	29.4%	50.66%	445,823	0.0100	0.0077	0.0023	3,360	84
Stamped Envelopes	12,542	0.03%	12,515	99.8%	(27)	0.00%	-0.2%	-0.37%	400,000	0.0313	0.0314	-0.0001	12,236	306
Box/Caller Service	597,451	1.43%	746,817	125.0%	149,366	0.62%	25.0%	43.02%	18,246	40.9305	32.7442	8.1862	582,879	14,572
Other	141,152	0.34%	396,957	281.2%	255,805	1.06%	181.2%	311.81%					137,709	3,443
Total Special Services	1,591,676	3.82%	2,052,635	129.0%	460,959	1.90%	29.0%	49.83%	1,455,553				1,552,855	38,821
Total Mail & Services	41,647,946	100.00%	65,853,778	158.1%	24,205,832	100.00%	58.1%	100.00%	211,169,665	0.3119	0.1972	0.1146	40,632,142	1,015,804
Other Costs	27,992,970												27,310,215	682,755
Other Income			383,847											
Prior Years Loss Recovery	268,257												268,257	-
Continuing Appropriations			67,093											
Investment Income			(29,693)											
Grand Total	69,909,173		66,275,025		(3,634,148)								68,210,614	1,698,559

Sources: Exhibit USPS-32A (Revised 4/21/00), Response of Witness Mayes to POIR No. 1, (Question 4 at 1) (Revised 4/21/00)

Summary of Estimated Test Year After Rates Finances at USPS Proposed Rates
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs (1)	% of Vol Variable Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (4) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - (1) (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)
First-Class Mail												
Single-Piece Letters	14,691,253 1/	33.2%	22,913,594	156.0%	8,222,341	33.7%	56.0%	101.6%	52,877,658	0.4333	0.2778	0.1555
Presort and Automation Letters	5,420,559	12.2%	13,252,350	244.5%	7,831,791	32.1%	144.5%	262.4%	46,979,736	0.2821	0.1154	0.1667
Total Letters	20,111,812	45.4%	36,165,944	179.8%	16,054,132	65.9%	79.8%	145.0%	99,857,394	0.3622	0.2014	0.1608
Single-Piece Cards	592,305	1.3%	603,902	102.0%	11,597	0.0%	2.0%	3.6%	2,770,783	0.2180	0.2138	0.0042
Presort and Automation Cards	181,167	0.4%	448,787	247.7%	267,620	1.1%	147.7%	268.3%	2,670,168	0.1681	0.0678	0.1002
Total Cards	773,472	1.7%	1,052,689	136.1%	279,217	1.1%	36.1%	65.6%	5,440,951	0.1935	0.1422	0.0513
Total First-Class Mail	20,885,284	47.2%	37,218,633	178.2%	16,333,349	67.0%	78.2%	142.0%	105,298,345	0.3535	0.1983	0.1551
Priority Mail	3,332,232	7.5%	5,542,259	166.3%	2,210,027	9.1%	66.3%	120.5%	1,249,750	4.4347	2.6663	1.7684
Express Mail	705,801	1.6%	1,068,567	151.4%	362,766	1.5%	51.4%	93.3%	72,301	14.7794	9.7620	5.0174
Mailgrams	1,134	0.0%	1,136	100.1%	2	0.0%	0.1%	0.3%	3,340	0.3400	0.3395	0.0005
Periodicals		0.0%										
Within County	84,139	0.2%	81,847	97.3%	(2,292)	0.0%	-2.7%	-4.9%	862,061	0.0949	0.0976	-0.0027
Outside County	2,522,213	5.7%	2,416,926	95.8%	(105,287)	-0.4%	-4.2%	-7.6%	9,459,105	0.2555	0.2666	-0.0111
Total Periodicals	2,606,352	5.9%	2,498,774	95.9%	(107,578)	-0.4%	-4.1%	-7.5%	10,321,166	0.2421	0.2525	-0.0104
Standard Mail (A)												
Regular	7,402,439	16.7%	9,070,437	122.5%	1,667,998	6.8%	22.5%	40.9%	40,998,656	0.2212	0.1806	0.0407
Enhanced Carrier Route	2,635,907	6.0%	5,162,024	195.8%	2,526,117	10.4%	95.8%	174.1%	32,828,211	0.1572	0.0803	0.0769
Total Commercial	10,038,346	22.7%	14,232,461	141.8%	4,194,115	17.2%	41.8%	75.9%	73,826,867	0.1928	0.1360	0.0568
Nonprofit	1,425,673	3.2%	1,543,087	108.2%	117,414	0.5%	8.2%	15.0%	11,425,579	0.1351	0.1248	0.0103
Enhanced Carrier Route	222,129	0.5%	264,218	118.9%	42,089	0.2%	18.9%	34.4%	2,851,875	0.0926	0.0779	0.0148
Total Nonprofit	1,647,802	3.7%	1,807,305	109.7%	159,503	0.7%	9.7%	17.6%	14,277,454	0.1266	0.1154	0.0112
Total Standard Mail (A)	11,686,148	26.4%	16,039,766	137.3%	4,353,618	17.9%	37.3%	67.7%	88,104,321	0.1821	0.1326	0.0494
Standard Mail (B)												
Parcel Post	1,081,997	2.4%	1,211,453	112.0%	129,456	0.5%	12.0%	21.7%	374,096	3.2383	2.8923	0.3461
Bound Printed Matter	481,326	1.1%	563,443	117.1%	82,117	0.3%	17.1%	31.0%	524,743	1.0738	0.9173	0.1565
Special Rate	311,038	0.7%	338,764	108.9%	27,726	0.1%	8.9%	16.2%	205,789	1.6462	1.5114	0.1347
Library Rate	48,828	0.1%	49,672	101.7%	844	0.0%	1.7%	3.1%	28,432	1.7470	1.7174	0.0297
Total Standard Mail (B)	1,923,189	4.3%	2,163,332	112.5%	240,143	1.0%	12.5%	22.7%	1,133,060	1.9093	1.6973	0.2119
Penalty								0.0%	348,543			
Free-for-the-Blind	43,501	0.1%	0	0.0%	(43,501)	-0.2%		0.0%	56,675	0.0000	0.7676	-0.7676
Total Domestic Mail	41,183,641	93.0%	64,532,466	156.7%	23,348,825	95.8%	56.7%	103.0%	206,587,501	0.3124	0.1994	0.1130
International Mail	1,451,585	3.3%	1,747,558	120.4%	295,973	1.2%	20.4%	37.0%	1,031,627	1.6940	1.4071	0.2869
Total All Mail	42,635,226	96.3%	66,280,024	155.5%	23,644,798	97.0%	55.5%	100.7%	207,619,128	0.3192	0.2054	0.1139
Special Services												
Registry	82,759	0.2%	94,993	114.8%	12,234	0.1%	14.8%	26.8%	11,174	8.5013	7.4064	1.0949
Certified Mail	507,537	1.1%	577,361	113.8%	69,824	0.3%	13.8%	25.0%	274,934	2.1000	1.8460	0.2540
Insurance	78,113	0.2%	106,070	135.8%	27,957	0.1%	35.8%	65.0%	44,680	2.3740	1.7483	0.6257
COD	16,727	0.0%	19,968	119.4%	3,241	0.0%	19.4%	35.2%	3,544	5.6343	4.7198	0.9145
Money Orders	152,143	0.3%	305,488	200.8%	153,345	0.6%	100.8%	183.1%	226,435	1.3491	0.6719	0.6772
Stamped Cards	3,444	0.0%	8,317	241.5%	4,873	0.0%	141.5%	257.0%	415,873	0.0200	0.0083	0.0117
Stamped Envelopes	12,473	0.0%	16,041	128.6%	3,568	0.0%	28.6%	52.0%	400,000	0.0401	0.0312	0.0089
Box/Caller Service	579,812	1.3%	814,060	140.4%	234,248	1.0%	40.4%	73.4%	17,958	45.3313	32.2871	13.0442
Other	199,606	0.5%	419,918	210.4%	220,312	0.9%	110.4%	200.5%				
Total Special Services	1,632,614	3.7%	2,362,217	144.7%	729,603	3.0%	44.7%	81.2%	1,394,598			
Total Mail & Services	44,267,840	100.0%	68,642,241	155.1%	24,374,401	100.0%	55.1%	100.0%	207,619,128	0.3306	0.2132	0.1174
Other Costs	24,584,124											
Other Income			383,847									
Prior Years Loss Recovery	268,257											
Continuing Appropriations			67,093									
Investment Income			(27,621)									
Grand Total	69,120,221		69,065,560		(54,661)							

Sources: LR-I-131, Volume J, Table E, TR 21/9421

Summary of Estimated Test Year Before Rates Finances
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs (1)	% of Vol Variable Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)
First-Class Mail												
Single-Piece Letters	14,780,313 1/	32.70%	22,306,818	150.9%	7,526,505	36.4%	50.9%	111.4%	53,213,828	0.4192	0.2778	0.1414
Presort and Automation Letters	5,453,740	12.07%	12,783,497	234.4%	7,329,757	35.5%	134.4%	294.1%	47,047,898	0.2717	0.1159	0.1558
Total Letters	20,234,053	44.77%	35,090,315	173.4%	14,856,262	71.9%	73.4%	160.7%	100,261,726	0.3500	0.2018	0.1482
Single-Piece Cards	608,582	1.35%	592,509	97.4%	(16,073)	-0.1%	-2.6%	-5.8%	2,850,850	0.2078	0.2135	-0.0056
Presort and Automation Cards	185,324	0.41%	436,738	235.7%	251,414	1.2%	135.7%	296.9%	2,734,081	0.1597	0.0678	0.0920
Total Cards	793,906	1.76%	1,029,247	129.6%	235,341	1.1%	29.6%	64.9%	5,584,931	0.1843	0.1422	0.0421
Total First-Class Mail	21,027,959	46.52%	36,119,562	171.8%	15,091,603	73.1%	71.8%	157.1%	105,846,657	0.3412	0.1987	0.1426
Priority Mail	3,555,775	7.87%	5,229,846	147.1%	1,674,071	8.1%	47.1%	103.0%	1,356,715	3.8548	2.6209	1.2339
Express Mail	699,290	1.55%	1,019,497	145.8%	320,207	1.6%	45.8%	100.2%	71,641	14.2306	9.7610	4.4696
Mailgrams	1,133	0.00%	1,136	100.2%	3	0.0%	0.2%	0.5%	3,340	0.3400	0.3392	0.0008
Periodicals												
Within County	84,986	0.19%	76,286	89.8%	(8,700)	0.0%	-10.2%	-22.4%	872,194	0.0875	0.0974	-0.0100
Outside County	2,555,557	5.65%	2,166,387	84.8%	(389,170)	-1.9%	-15.2%	-33.3%	9,556,551	0.2267	0.2674	-0.0407
Total Periodicals	2,640,543	5.84%	2,242,673	84.9%	(397,870)	-1.9%	-15.1%	-33.0%	10,428,745	0.2150	0.2532	-0.0382
Standard Mail (A)												
Regular	7,727,764	17.10%	8,653,220	112.0%	925,456	4.5%	12.0%	26.2%	42,783,773	0.2023	0.1806	0.0216
Enhanced Carrier Route	2,694,480	5.96%	5,036,496	186.9%	2,342,016	11.3%	86.9%	190.2%	33,630,517	0.1498	0.0801	0.0696
Total Commercial	10,422,244	23.06%	13,689,715	131.4%	3,267,471	15.8%	31.4%	68.6%	76,414,291	0.1792	0.1364	0.0428
Nonprofit	1,431,019	3.17%	1,458,641	101.9%	27,622	0.1%	1.9%	4.2%	11,510,795	0.1267	0.1243	0.0024
Enhanced Carrier Route	226,200	0.50%	232,440	102.8%	6,240	0.0%	2.8%	6.0%	2,907,206	0.0800	0.0778	0.0021
Total Nonprofit	1,657,219	3.67%	1,691,081	102.0%	33,862	0.2%	2.0%	4.5%	14,418,001	0.1173	0.1149	0.0023
Total Standard Mail (A)	12,079,463	26.72%	15,380,796	127.3%	3,301,333	16.0%	27.3%	59.8%	90,832,291	0.1693	0.1330	0.0363
Standard Mail (B)												
Parcel Post	1,108,626	2.45%	1,197,801	108.0%	89,175	0.4%	8.0%	17.6%	378,447	3.1650	2.9294	0.2356
Bound Printed Matter	495,499	1.10%	492,554	99.4%	(2,945)	0.0%	-0.6%	-1.3%	541,976	0.9088	0.9142	-0.0054
Special Rate	314,765	0.70%	327,631	104.1%	12,866	0.1%	4.1%	8.9%	208,687	1.5700	1.5083	0.0617
Library Rate	49,699	0.11%	48,517	97.6%	(1,182)	0.0%	-2.4%	-5.2%	29,009	1.6725	1.7132	-0.0408
Total Standard Mail (B)	1,968,589	4.36%	2,066,503	105.0%	97,914	0.5%	5.0%	10.9%	1,158,118	1.7844	1.6998	0.0845
Penalty		0.00%			0	0.0%			348,543			
Free-for-the-Blind	43,455	0.10%	0	0.0%	(43,455)	-0.2%			56,675			
Total Domestic Mail	42,016,207		62,060,012	147.7%	20,043,805	97.0%	47.7%	104.4%	210,102,726	0.2954	0.2000	0.0954
International Mail	1,496,493	3.31%	1,741,131	116.3%	244,638	1.2%	16.3%	35.8%	1,066,939	1.6319	1.4026	0.2293
Total All Mail	43,512,700	96.27%	63,801,143	146.6%	20,288,443	98.2%	46.6%	102.0%	211,169,665	0.3021	0.2061	0.0961
Special Services												
Registry	86,041	0.19%	81,435	94.6%	(4,606)	0.0%	-5.4%	-11.7%	11,563	7.0427	7.4411	-0.3983
Certified Mail	544,034	1.20%	414,039	76.1%	(129,995)	-0.6%	-23.9%	-52.3%	295,742	1.4000	1.8396	-0.4396
Insurance	79,658	0.18%	89,575	112.5%	9,917	0.0%	12.5%	27.2%	45,610	1.9639	1.7465	0.2174
COD	16,850	0.04%	18,373	109.0%	1,523	0.0%	9.0%	19.8%	3,576	5.1379	4.7120	0.4259
Money Orders	157,644	0.35%	288,465	183.0%	130,821	0.6%	83.0%	181.6%	234,993	1.2275	0.6708	0.5567
Stamped Cards	3,444	0.01%	4,458	129.4%	1,014	0.0%	29.4%	64.4%	445,823	0.0100	0.0077	0.0023
Stamped Envelopes	12,468	0.03%	12,515	100.4%	47	0.0%	0.4%	0.8%	400,000	0.0313	0.0312	0.0001
Box/Caller Service	587,939	1.30%	746,817	127.0%	158,878	0.8%	27.0%	59.1%	18,246	40.930	32.223	8.708
Other	199,407	0.44%	396,957	199.1%	197,550	1.0%	99.1%	216.8%				
Total Special Services	1,687,485	3.73%	2,052,635	121.6%	365,150	1.8%	21.6%	47.4%	1,455,553			
Total Mail & Services	45,200,185	100.00%	65,853,778	145.7%	20,653,593	100.0%	45.7%	100.0%	211,169,665	0.3119	0.2140	0.0978
Other Costs	24,592,811											
Other Income			383,847									
Prior Years Loss Recovery	268,257											
Continuing Appropriations			67,093									
Investment Income			(29,693)									
Grand Total	70,061,253		66,275,025		(3,786,228)							

Sources: Vol Var Costs from LR-I-131, Volume H, TR 21/9420

1/ TR 21/9420

Summary of Estimated Test Year After Rates Finances
(Includes MMA's Proposed Rate Changes to First Class Presort Letters and 2% Contingency)
(USPS Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Cost With Contigency @ 2.5% (1)	Vol Variable Cost With Contigency @ 2% (2)	% of Vol Var Costs (2) / Total (2) (3)	Revenue (4)	Cost Coverage (4) / (2) (5)	Contrib To Oth Costs (4) - (2) (6)	% of Other Costs (6) / Total (6) (7)	Mark Up (5) - 1 (8)	Mark Up Index (8) / Total (8) (9)	Mail Volume (10)	Unit Revenue (4) / (10) (11)	Unit Cost (2) / (10) (12)	Unit Contrib (11) - (12 (13)	Proposed Increase (11) / (11B) (14)	Volume Variable Cost Without Contingency (1) / 1.025 (15)	Contingency @ 2% (2) - (15) (16)	Proposed Increase In Revenue Contribution (6) - (6B) (17)
First-Class Mail																	
Single-Piece Letters	13,326,042	13,261,037	32.68%	22,913,594	172.8%	9,652,557	34.71%	72.8%	106.23%	52,877,658	0.4333	0.2520	0.1813	103.4%	13,001,017	260,020	688,857
Presort and Automation Letters	5,019,464	4,994,979	12.31%	13,001,980	260.3%	8,007,001	28.79%	160.3%	233.94%	46,979,736	0.2768	0.1068	0.1699	101.9%	4,897,038	97,941	249,480
Total Letters	18,345,506	18,256,016	44.99%	35,915,574	196.7%	17,659,558	63.51%	96.7%	141.17%	99,857,394	0.3597	0.1837	0.1760	102.8%	17,898,055	357,961	938,337
Single-Piece Cards	539,919	537,285	1.32%	603,902	112.4%	66,617	0.24%	12.4%	18.09%	2,770,783	0.2180	0.1949	0.0231	104.9%	526,750	10,535	26,195
Presort and Automation Cards	168,958	168,134	0.41%	448,787	266.9%	280,653	1.01%	166.9%	243.60%	2,670,168	0.1681	0.0633	0.1048	105.2%	164,837	3,297	15,951
Total Cards	708,877	705,419	1.74%	1,052,689	149.2%	347,270	1.25%	49.2%	71.84%	5,440,951	0.1935	0.1303	0.0632	105.0%	691,587	13,832	42,146
Total First-Class Mail	19,054,383	18,961,435	46.72%	36,968,263	195.0%	18,006,828	64.76%	95.0%	138.59%	105,298,345	0.3511	0.1810	0.1701	102.9%	18,589,642	371,793	980,482
Priority Mail	3,064,062	3,049,115	7.51%	5,542,259	181.8%	2,493,144	8.97%	81.8%	119.33%	1,249,750	4.4347	2.4517	1.9830	115.0%	2,989,329	59,787	510,775
Express Mail	480,984	478,638	1.18%	1,068,567	223.3%	589,929	2.12%	123.3%	179.87%	72,301	14.7794	6.6525	8.1269	103.9%	469,253	9,385	44,738
Mailgrams	1,000	995	0.00%	1,136	114.1%	141	0.00%	14.1%	20.61%	3,340	0.3400	0.2994	0.0406	100.0%	976	20	(9)
Periodicals																	
Within County	81,397	81,000	0.20%	81,847	101.0%	848	0.00%	1.0%	1.53%	862,061	0.0949	0.0944	0.0005	108.6%	79,412	1,588	6,388
Outside County	2,384,191	2,372,561	5.85%	2,416,926	101.9%	44,366	0.16%	1.9%	2.73%	9,459,105	0.2555	0.2521	0.0035	112.7%	2,326,040	46,521	281,972
Total Periodicals	2,465,588	2,453,561	6.05%	2,498,774	101.8%	45,213	0.16%	1.8%	2.69%	10,321,166	0.2421	0.2389	0.0032	112.6%	2,405,452	48,109	288,360
Standard Mail (A)																	
Regular	6,823,933	6,790,646	16.73%	9,070,437	133.6%	2,279,791	8.20%	33.6%	48.99%	40,998,656	0.2212	0.1664	0.0548	109.4%	6,657,496	133,150	716,910
Enhanced Carrier Route	2,471,864	2,459,806	6.06%	5,162,024	209.9%	2,702,218	9.72%	109.9%	160.32%	32,828,211	0.1572	0.0753	0.0819	105.0%	2,411,575	48,231	181,177
Total Commercial	9,295,797	9,250,452	22.79%	14,232,461	153.9%	4,982,009	17.92%	53.9%	78.60%	73,826,867	0.1928	0.1259	0.0669	107.6%	9,069,070	181,381	898,087
Nonprofit	1,320,611	1,314,169	3.24%	1,543,087	117.4%	228,918	0.82%	17.4%	25.42%	11,425,579	0.1351	0.1156	0.0195	106.6%	1,288,401	25,768	89,908
Enhanced Carrier Route	208,577	207,560	0.51%	264,218	127.3%	56,658	0.20%	27.3%	39.84%	2,851,875	0.0926	0.0731	0.0195	115.9%	203,490	4,070	35,570
Total Nonprofit	1,529,188	1,521,729	3.75%	1,807,305	118.8%	285,576	1.03%	18.8%	27.39%	14,277,454	0.1266	0.1071	0.0195	107.9%	1,491,891	29,838	125,479
Total Standard Mail (A)	10,824,985	10,772,180	26.54%	16,039,766	148.9%	5,267,585	18.94%	48.9%	71.36%	88,104,321	0.1821	0.1229	0.0592	107.5%	10,560,961	211,219	1,023,565
Standard Mail (B)																	
Parcel Post	1,052,158	1,047,026	2.58%	1,211,453	115.7%	164,427	0.59%	15.7%	22.92%	374,096	3.2383	2.8125	0.4258	102.3%	1,026,496	20,530	39,570
Bound Printed Matter	479,204	476,866	1.18%	563,443	118.2%	86,577	0.31%	18.2%	26.50%	524,743	1.0738	0.9132	0.1605	118.1%	467,516	9,350	85,039
Special Rate	301,195	299,726	0.74%	338,764	113.0%	39,038	0.14%	13.0%	19.01%	205,789	1.6462	1.4636	0.1826	104.9%	293,849	5,877	14,766
Library Rate	47,444	47,213	0.12%	49,672	105.2%	2,459	0.01%	5.2%	7.60%	28,432	1.7470	1.6687	0.0784	104.5%	46,287	926	2,002
Total Standard Mail (B)	1,880,001	1,870,830	4.61%	2,163,332	115.6%	292,502	1.05%	15.6%	22.82%	1,133,060	1.9093	1.6592	0.2501	107.0%	1,834,147	36,683	141,377
Penalty										348,543							
Free-for-the-Blind	40,348	40,151	0.10%	0	0.0%	(40,151)	-0.14%			56,675	0.0000	0.7119	-0.7119		39,364	787	(46)
Total Domestic Mail	37,811,351	37,626,905	92.72%	64,282,095	170.8%	26,655,190	95.86%	70.8%	103.38%	206,587,501	0.3112	0.1830	0.1281	105.3%	36,889,123	737,782	2,989,244
International Mail	1,429,916	1,422,941	3.51%	1,747,558	122.8%	324,617	1.17%	22.8%	33.29%	1,031,627	1.6940	1.3861	0.3079	103.8%	1,395,040	27,901	50,294
Total All Mail	39,241,267	39,049,846	96.23%	66,029,653	169.1%	26,979,807	97.02%	69.1%	100.83%	207,619,128	0.3180	0.1890	0.1290	105.3%	38,284,163	765,683	3,039,538
Special Services																	
Registry	85,204	84,788	0.21%	94,993	112.0%	10,205	0.04%	12.0%	17.56%	11,174	8.5013	7.6252	0.8761	120.7%	83,126	1,663	17,605
Certified Mail	461,746	459,494	1.13%	577,361	125.7%	117,867	0.42%	25.7%	37.44%	274,934	2.1000	1.6795	0.4205	150.0%	450,484	9,010	196,359
Insurance	76,638	76,264	0.19%	106,070	139.1%	29,806	0.11%	39.1%	57.04%	44,680	2.3740	1.7153	0.6587	120.9%	74,769	1,495	18,012
COD	14,992	14,919	0.04%	19,968	133.8%	5,049	0.02%	33.8%	49.39%	3,544	5.6343	4.2302	1.4041	109.7%	14,626	293	1,706
Money Orders	153,995	153,244	0.38%	305,488	199.3%	152,244	0.55%	99.3%	144.99%	226,435	1.3491	0.6801	0.6690	111.8%	150,239	3,005	27,527
Stamped Cards	3,444	3,427	0.01%	8,317	242.7%	4,890	0.02%	142.7%	208.22%	415,873	0.0200	0.0083	0.0117	200.0%	3,360	67	3,859
Stamped Envelopes	12,544	12,483	0.03%	16,041	128.5%	3,559	0.01%	28.5%	41.60%	400,000	0.0401	0.0314	0.0087	128.2%	12,238	245	3,524
Box/Caller Service	589,226	586,352	1.44%	814,024	138.8%	227,672	0.82%	38.8%	56.67%	17,958	45.3293	32.8113	12.5180	110.7%	574,855	11,497	75,379
Other	141,324	140,635	0.35%	417,049	296.5%	276,414	0.99%								137,877	2,758	19,274
Total Special Services	1,539,113	1,531,605	3.77%	2,359,312	154.0%	827,707	2.98%	54.0%	78.87%	1,394,598					1,501,574	30,031	363,246
Total Mail & Services	40,780,380	40,581,451	100.00%	68,388,965	168.5%	27,807,514	100.00%	68.5%	100.00%	207,619,128	0.3294	0.1964	0.1330	105.6%	39,785,737	795,715	3,402,783
Other Costs	27,978,701	27,842,220													27,296,294	545,926	
Other Income				383,847													
Prior Years Loss Recovery	268,257	268,257															
Continuing Appropriations				67,093													
Investment Income				(27,621)													
Grand Total	69,027,338	68,691,928		68,812,284		120,356									67,082,030	1,341,641	

Source: Exhibit USPS-32B (Revised 4/21/00), Contingency at 2% instead of 2.5%, First-Class Presort revenues reduced by $250,370

Summary of Estimated Test Year Before Rates Finances
(Includes MMA's Proposed 2% Contingency)
(USPS Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Cost With Contigency @ 2.5% (1)	Vol Variable Cost With Contigency @ 2% (2)	% of Vol Var Costs (2) / Total (2) (3)	Revenue (4)	Cost Coverage (4) / (2) (5)	Contrib To Oth Costs (4) - (2) (6)	% of Other Costs (6) / Total (6) (7)	Mark Up (5) - 1 (8)	Mark Up Index (8) / Total (8) (9)	Mail Volume (10)	Unit Revenue (4) / (10) (11)	Unit Cost (2) / (10) (12)	Unit Contrib (11) - (12 (13)	Volume Variabe Cost Without Contingency (1) / 1.025 (13)	Contingency (2) - (13) (14)
First-Class Mail															
Single-Piece Letters	13,408,525	13,343,118	32.19%	22,306,818	167.2%	8,963,700	36.73%	67.2%	114.08%	53,213,828	0.4192	0.2520	0.1672	13,081,488	261,630
Presort and Automation Letters	5,050,613	5,025,976	12.13%	12,783,497	254.3%	7,757,521	31.79%	154.3%	262.12%	47,047,898	0.2717	0.1074	0.1644	4,927,427	98,549
Total Letters	18,459,138	18,369,093	44.32%	35,090,315	191.0%	16,721,222	68.52%	91.0%	154.59%	100,261,726	0.3500	0.1841	0.1659	18,008,915	360,178
Single-Piece Cards	554,794	552,088	1.33%	592,509	107.3%	40,421	0.17%	7.3%	12.43%	2,850,850	0.2078	0.1946	0.0132	541,262	10,825
Presort and Automation Cards	172,879	172,036	0.42%	436,738	253.9%	264,703	1.08%	153.9%	261.30%	2,734,081	0.1597	0.0632	0.0965	168,662	3,373
Total Cards	727,673	724,123	1.75%	1,029,247	142.1%	305,124	1.25%	42.1%	71.56%	5,584,931	0.1843	0.1303	0.0540	709,925	14,198
Total First-Class Mail	19,186,811	19,093,217	46.07%	36,119,562	189.2%	17,026,345	69.77%	89.2%	151.44%	105,846,657	0.3412	0.1813	0.1600	18,718,840	374,377
Priority Mail	3,263,396	3,247,477	7.84%	5,229,846	161.0%	1,982,369	8.12%	61.0%	103.67%	1,356,715	3.8548	2.4054	1.4494	3,183,801	63,676
Express Mail	476,631	474,306	1.14%	1,019,497	214.9%	545,191	2.23%	114.9%	195.20%	71,641	14.2306	6.6530	7.5776	465,006	9,300
Mailgrams	991	986	0.00%	1,136	115.2%	149	0.00%	15.2%	25.74%	3,340	0.3400	0.2967	0.0433	967	19
Periodicals															
Within County	82,227	81,826	0.20%	76,286	93.2%	(5,540)	-0.02%	-6.8%	-11.50%	872,194	0.0875	0.0943	-0.0068	80,221	1,604
Outside County	2,415,778	2,403,994	5.80%	2,166,387	90.1%	(237,607)	-0.97%	-9.9%	-16.78%	9,556,551	0.2267	0.2528	-0.0261	2,356,857	47,137
Total Periodicals	2,498,005	2,485,820	6.00%	2,242,673	90.2%	(243,147)	-1.00%	-9.8%	-16.61%	10,428,745	0.2150	0.2395	-0.0245	2,437,078	48,742
Standard Mail (A)															
Regular	7,125,095	7,090,338	17.11%	8,653,220	122.0%	1,562,881	6.40%	22.0%	37.43%	42,783,773	0.2023	0.1665	0.0357	6,951,312	139,026
Enhanced Carrier Route	2,527,785	2,515,454	6.07%	5,036,496	200.2%	2,521,041	10.33%	100.2%	170.20%	33,630,517	0.1498	0.0752	0.0746	2,466,132	49,323
Total Commercial	9,652,880	9,605,793	23.18%	13,689,715	142.5%	4,083,923	16.73%	42.5%	72.20%	76,414,291	0.1792	0.1263	0.0528	9,417,444	188,349
Nonprofit	1,326,100	1,319,631	3.18%	1,458,641	110.5%	139,009	0.57%	10.5%	17.89%	11,510,795	0.1267	0.1152	0.0115	1,293,756	25,875
Enhanced Carrier Route	212,388	211,352	0.51%	232,440	110.0%	21,088	0.09%	10.0%	16.94%	2,907,206	0.0800	0.0731	0.0069	207,208	4,144
Total Nonprofit	1,538,488	1,530,983	3.69%	1,691,081	110.5%	160,097	0.66%	10.5%	17.76%	14,418,001	0.1173	0.1067	0.0106	1,500,964	30,019
Total Standard Mail (A)	11,191,368	11,136,776	26.87%	15,380,796	138.1%	4,244,020	17.39%	38.1%	64.72%	90,832,291	0.1693	0.1232	0.0461	10,918,408	218,368
Standard Mail (B)															
Parcel Post	1,078,203	1,072,943	2.59%	1,197,801	111.6%	124,858	0.51%	11.6%	19.76%	378,447	3.1650	2.8490	0.3160	1,051,905	21,038
Bound Printed Matter	493,424	491,017	1.18%	492,554	100.3%	1,537	0.01%	0.3%	0.53%	541,976	0.9088	0.9104	-0.0016	481,389	9,628
Special Rate	304,846	303,359	0.73%	327,631	108.0%	24,272	0.10%	8.0%	13.59%	208,687	1.5700	1.4608	0.1092	297,411	5,948
Library Rate	48,295	48,059	0.12%	48,517	101.0%	457	0.00%	1.0%	1.62%	29,009	1.6725	1.6648	0.0076	47,117	942
Total Standard Mail (B)	1,924,768	1,915,379	4.62%	2,066,503	107.9%	151,124	0.62%	7.9%	13.40%	1,158,118	1.7844	1.6620	0.1224	1,877,822	37,556
Penalty										348,543	0.0000	0.0000			
Free-for-the-Blind	40,302	40,105	0.10%	0	0.0%	(40,105)	-0.16%		0.00%	56,675	0.0000	0.7111	-0.7111	39,319	786
Total Domestic Mail	38,582,272	38,394,066	92.64%	62,060,012	161.6%	23,665,946	96.97%	61.6%	104.68%	210,102,726	0.2954	0.1836	0.1117	37,641,241	752,825
International Mail	1,473,998	1,466,808	3.54%	1,741,131	118.7%	274,323	1.12%	18.7%	31.76%	1,066,939	1.6319	1.3815	0.2504	1,438,047	28,761
Total All Mail	40,056,270	39,860,874	96.18%	63,801,143	160.1%	23,940,270	98.10%	60.1%	101.99%	211,169,665	0.3021	0.1897	0.1124	39,079,288	781,586
Special Services							0.00%								
Registry	89,271	88,836	0.21%	81,435	91.7%	(7,400)	-0.03%	-8.3%	-14.15%	11,563	7.0427	7.7204	-0.6777	87,094	1,742
Certified Mail	494,945	492,531	1.19%	414,039	84.1%	(78,492)	-0.32%	-15.9%	-27.06%	295,742	1.4000	1.6736	-0.2736	482,873	9,657
Insurance	78,162	77,781	0.19%	89,575	115.2%	11,795	0.05%	15.2%	25.75%	45,610	1.9639	1.7137	0.2502	76,256	1,525
COD	15,104	15,030	0.04%	18,373	122.2%	3,343	0.01%	22.2%	37.77%	3,576	5.1379	4.2237	0.9141	14,736	295
Money Orders	159,605	158,826	0.38%	283,544	178.5%	124,718	0.51%	78.5%	133.35%	234,993	1.2066	0.6792	0.5274	155,712	3,114
Stamped Cards	3,444	3,427	0.01%	4,458	130.1%	1,031	0.00%	30.1%	51.08%	445,823	0.0100	0.0077	0.0023	3,360	67
Stamped Envelopes	12,542	12,481	0.03%	12,515	100.3%	34	0.00%	0.3%	0.47%	400,000	0.0313	0.0314	-0.0001	12,236	245
Box/Caller Service	597,451	594,537	1.43%	746,829	125.6%	152,293	0.62%	25.6%	43.50%	18,246	40.9311	32.7442	8.1869	582,879	11,658
Other	141,152	140,463	0.34%	397,604	283.1%	257,140	1.05%		0.00%					137,709	2,754
Total Special Services	1,591,676	1,583,912	3.82%	2,048,373	129.3%	464,461	1.90%	29.3%	49.80%	1,455,553				1,552,855	31,057
Total Mail & Services	41,647,946	41,444,785	100.00%	65,849,516	158.9%	24,404,731	100.00%	58.9%	100.00%	211,169,665	0.3118	0.1972	0.1146	40,632,142	812,643
Other Costs	27,992,970	27,856,419												27,310,215	546,204
Other Income				383,847											
Prior Years Loss Recovery	268,257	268,257													
Continuing Appropriations				67,093											
Investment Income				(25,390)											
Grand Total	69,909,173	69,569,461		66,275,066		(3,294,395)								67,942,357	1,358,847

Source: Exhibit USPS-32A (Revised 4/21/00), Contingency at 2% instead of 2.5%

Summary of Estimated Test Year After Rates Finances
(Includes MMA's Proposed Rate Changes to First Class Presort Letters and 2% Contingency)
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs With Contigency @ 2.5% (1)	Vol Variable Costs With Contigency @ 2% (2)	% of Vol Var Costs (2) / Total (2) (3)	Revenue (4)	Cost Coverage (4) / (2) (5)	Contrib To Oth Costs (4) - (2) (6)	% of Other Costs (6) / Total (6) (7)	Mark Up (5) - 1 (8)	Mark Up Index (8) / Total (8) (9)	Mail Volume (10)	Unit Revenue (4) / (10) (11)	Unit Cost (2) / (10) (12)	Unit Contrib (11) - (12 (13)
First-Class Mail													
Single-Piece Letters 1/	14,691,253	14,619,588	33.19%	22,913,594	156.7%	8,294,006	34.08%	56.7%	102.69%	52,877,658	0.4333	0.2778	0.1555
Presort and Automation Letters	5,420,559	5,394,117	12.24%	13,001,980	241.0%	7,607,863	31.26%	141.0%	255.29%	46,979,736	0.2768	0.1154	0.1614
Total Letters	20,111,812	20,013,706	45.43%	35,915,574	179.5%	15,901,868	65.34%	79.5%	143.82%	99,857,394	0.3597	0.2014	0.1583
Single-Piece Cards	592,305	589,416	1.34%	603,902	102.5%	14,486	0.06%	2.5%	4.45%	2,770,783	0.2180	0.2138	0.0042
Presort and Automation Cards	181,167	180,283	0.41%	448,787	248.9%	268,504	1.10%	148.9%	269.58%	2,670,168	0.1681	0.0678	0.1002
Total Cards	773,472	769,699	1.75%	1,052,689	136.8%	282,990	1.16%	36.8%	66.55%	5,440,951	0.1935	0.1422	0.0513
Total First-Class Mail	20,885,284	20,783,405	47.18%	36,968,263	177.9%	16,184,858	66.50%	77.9%	140.96%	105,298,345	0.3511	0.1983	0.1527
Priority Mail	3,332,232	3,315,977	7.53%	5,542,259	167.1%	2,226,282	9.15%	67.1%	121.52%	1,249,750	4.4347	2.6663	1.7684
Express Mail	705,801	702,358	1.59%	1,068,567	152.1%	366,209	1.50%	52.1%	94.38%	72,301	14.7794	9.7620	5.0174
Mailgrams	1,134	1,128	0.00%	1,136	100.6%	7	0.00%	0.6%	1.15%	3,340	0.3400	0.3395	0.0005
Periodicals													
Within County	84,139	83,729	0.19%	81,847	97.8%	(1,881)	-0.01%	-2.2%	-4.07%	862,061	0.0949	0.0976	-0.0027
Outside County	2,522,213	2,509,910	5.70%	2,416,926	96.3%	(92,983)	-0.38%	-3.7%	-6.71%	9,459,105	0.2555	0.2666	-0.0111
Total Periodicals	2,606,352	2,593,638	5.89%	2,498,774	96.3%	(94,864)	-0.39%	-3.7%	-6.62%	10,321,166	0.2421	0.2525	-0.0104
Standard Mail (A)													
Regular	7,402,439	7,366,330	16.72%	9,070,437	123.1%	1,704,107	7.00%	23.1%	41.87%	40,998,656	0.2212	0.1806	0.0407
Enhanced Carrier Route	2,635,907	2,623,049	5.95%	5,162,024	196.8%	2,538,975	10.43%	96.8%	175.21%	32,828,211	0.1572	0.0803	0.0769
Total Commercial	10,038,346	9,989,378	22.68%	14,232,461	142.5%	4,243,083	17.43%	42.5%	76.88%	73,826,867	0.1928	0.1360	0.0568
Nonprofit	1,425,673	1,418,718	3.22%	1,543,087	108.8%	124,368	0.51%	8.8%	15.87%	11,425,579	0.1351	0.1248	0.0103
Enhanced Carrier Route	222,129	221,045	0.50%	264,218	119.5%	43,173	0.18%	19.5%	35.35%	2,851,875	0.0926	0.0779	0.0148
Total Nonprofit	1,647,802	1,639,764	3.72%	1,807,305	110.2%	167,541	0.69%	10.2%	18.49%	14,277,454	0.1266	0.1154	0.0112
Total Standard Mail (A)	11,686,148	11,629,142	26.40%	16,039,766	137.9%	4,410,623	18.12%	37.9%	68.65%	88,104,321	0.1821	0.1326	0.0494
Standard Mail (B)													
Parcel Post	1,081,997	1,076,719	2.44%	1,211,453	112.5%	134,734	0.55%	12.5%	22.65%	374,096	3.2383	2.8923	0.3461
Bound Printed Matter	481,326	478,978	1.09%	563,443	117.6%	84,465	0.35%	17.6%	31.92%	524,743	1.0738	0.9173	0.1565
Special Rate	311,038	309,521	0.70%	338,764	109.4%	29,243	0.12%	9.4%	17.10%	205,789	1.6462	1.5114	0.1347
Library Rate	48,828	48,590	0.11%	49,672	102.2%	1,082	0.00%	2.2%	4.03%	28,432	1.7470	1.7174	0.0297
Total Standard Mail (B)	1,923,189	1,913,808	4.34%	2,163,332	113.0%	249,524	1.03%	13.0%	23.60%	1,133,060	1.9093	1.6973	0.2119
Penalty										348,543			
Free-for-the-Blind	43,501	43,289	0.10%	0	0.0%	(43,289)	-0.18%			56,675	0.0000	0.7676	-0.7676
Total Domestic Mail	41,183,641	40,982,745	93.03%	64,282,095	156.9%	23,299,350	95.74%	56.9%	102.91%	206,587,501	0.3112	0.1994	0.1118
International Mail	1,451,585	1,444,504	3.28%	1,747,558	121.0%	303,054	1.25%	21.0%	37.97%	1,031,627	1.6940	1.4071	0.2869
Total All Mail	42,635,226	42,427,249	96.31%	66,029,653	155.6%	23,602,404	96.98%	55.6%	100.69%	207,619,128	0.3180	0.2054	0.1127
Special Services													
Registry	82,759	82,355	0.19%	94,993	115.3%	12,638	0.05%	15.3%	27.78%	11,174	8.5013	7.4064	1.0949
Certified Mail	507,537	505,061	1.15%	577,361	114.3%	72,300	0.30%	14.3%	25.91%	274,934	2.1000	1.8460	0.2540
Insurance	78,113	77,732	0.18%	106,070	136.5%	28,339	0.12%	36.5%	65.99%	44,680	2.3740	1.7483	0.6257
COD	16,727	16,645	0.04%	19,968	120.0%	3,323	0.01%	20.0%	36.13%	3,544	5.6343	4.7198	0.9145
Money Orders	152,143	151,401	0.34%	305,488	201.8%	154,087	0.63%	101.8%	184.22%	226,435	1.3491	0.6719	0.6772
Stamped Cards	3,444	3,427	0.01%	8,317	242.7%	4,890	0.02%	142.7%	258.25%	415,873	0.0200	0.0083	0.0117
Stamped Envelopes	12,473	12,412	0.03%	16,041	129.2%	3,629	0.01%	29.2%	52.93%	400,000	0.0401	0.0312	0.0089
Box/Caller Service	579,812	576,984	1.31%	814,024	141.1%	237,040	0.97%	41.1%	74.36%	17,958	45.3293	32.2871	13.0422
Other	199,606	198,632	0.45%	417,049	210.0%	218,417	0.90%						
Total Special Services	1,632,614	1,624,650	3.69%	2,359,312	145.2%	734,662	3.02%	45.2%	81.85%				
Total Mail & Services	44,267,840	44,051,899	100.00%	68,388,965	155.2%	24,337,066	100.00%	55.2%	100.00%	207,619,128	0.3294	0.2132	0.1162
Other Costs	24,584,124	24,464,201											
Other Income				383,847									
Prior Years Loss Recovery	268,257	268,257											
Continuing Appropriations				67,093									
Investment Income				(27,621)									
Grand Total	69,120,221	68,784,358		68,812,284		27,926							

Source: LR-I-131, Volume J, Table E, Contingency at 2% instead of 2.5%, First-Class Presort Revenues reduced by $250,370

Summary of Estimated Test Year Before Rates Finances
(Includes MMA's Proposed 2% Contingency)
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs With Contigency @ 2.5% (1)	Vol Variable Costs With Contigency @ 2% (2)	% of Vol Var Costs (2) / Total (2) (3)	Revenue (4)	Cost Coverage (4) / (2) (5)	Contrib To Oth Costs (4) - (2) (6)	% of Other Costs (6) / Total (6) (7)	Mark Up (5) - 1 (8)	Mark Up Index (8) / Total (8) (9)	Mail Volume (10)	Unit Revenue (4) / (10) (11)	Unit Cost (2) / (10) (12)	Unit Contrib (11) - (12 (13)	Vol Variable Costs Without Contingency (1) / 1.025 (13)	Contingency (2) - (13) (14)
First-Class Mail															
Single-Piece Letters 1/	14,780,313	14,708,214	32.70%	22,306,818	151.7%	7,598,604	36.41%	51.7%	111.35%	53,213,828	0.4192	0.2778	0.1414	14,419,818	288,396
Presort and Automation Letters	5,453,740	5,427,136	12.07%	12,783,497	235.5%	7,356,361	35.25%	135.5%	292.14%	47,047,898	0.2717	0.1159	0.1558	5,320,722	106,414
Total Letters	20,234,053	20,135,350	44.77%	35,090,315	174.3%	14,954,965	71.66%	74.3%	160.08%	100,261,726	0.3500	0.2018	0.1482	19,740,540	394,811
Single-Piece Cards	608,582	605,613	1.35%	592,509	97.8%	(13,104)	-0.06%	-2.2%	-4.66%	2,850,850	0.2078	0.2135	-0.0056	593,739	11,875
Presort and Automation Cards	185,324	184,420	0.41%	436,738	236.8%	252,318	1.21%	136.8%	294.88%	2,734,081	0.1597	0.0678	0.0920	180,804	3,616
Total Cards	793,906	790,033	1.76%	1,029,247	130.3%	239,214	1.15%	30.3%	65.26%	5,584,931	0.1843	0.1422	0.0421	774,542	15,491
Total First-Class Mail	21,027,959	20,925,384	46.52%	36,119,562	172.6%	15,194,179	72.80%	72.6%	156.50%	105,846,657	0.3412	0.1987	0.1426	20,515,082	410,302
Priority Mail	3,555,775	3,538,430	7.87%	5,229,846	147.8%	1,691,416	8.10%	47.8%	103.02%	1,356,715	3.8548	2.6209	1.2339	3,469,049	69,381
Express Mail	699,290	695,879	1.55%	1,019,497	146.5%	323,618	1.55%	46.5%	100.23%	71,641	14.2306	9.7610	4.4696	682,234	13,645
Mailgrams	1,133	1,127	0.00%	1,136	100.7%	8	0.00%	0.7%	1.56%	3,340	0.3400	0.3392	0.0008	1,105	22
Periodicals															
Within County	84,986	84,571	0.19%	76,286	90.2%	(8,286)	-0.04%	-9.8%	-21.12%	872,194	0.0875	0.0974	-0.0100	82,913	1,658
Outside County	2,555,557	2,543,091	5.65%	2,166,387	85.2%	(376,704)	-1.81%	-14.8%	-31.93%	9,556,551	0.2267	0.2674	-0.0407	2,493,226	49,865
Total Periodicals	2,640,543	2,627,662	5.84%	2,242,673	85.3%	(384,990)	-1.84%	-14.7%	-31.58%	10,428,745	0.2150	0.2532	-0.0382	2,576,140	51,523
Standard Mail (A)															
Regular	7,727,764	7,690,068	17.10%	8,653,220	112.5%	963,152	4.62%	12.5%	26.99%	42,783,773	0.2023	0.1806	0.0216	7,539,282	150,786
Enhanced Carrier Route	2,694,480	2,681,336	5.96%	5,036,496	187.8%	2,355,159	11.29%	87.8%	189.31%	33,630,517	0.1498	0.0801	0.0696	2,628,761	52,575
Total Commercial	10,422,244	10,371,404	23.06%	13,689,715	132.0%	3,318,312	15.90%	32.0%	68.96%	76,414,291	0.1792	0.1364	0.0428	10,168,043	203,361
Nonprofit	1,431,019	1,424,038	3.17%	1,458,641	102.4%	34,602	0.17%	2.4%	5.24%	11,510,795	0.1267	0.1243	0.0024	1,396,116	27,922
Enhanced Carrier Route	226,200	225,097	0.50%	232,440	103.3%	7,343	0.04%	3.3%	7.03%	2,907,206	0.0800	0.0778	0.0021	220,683	4,414
Total Nonprofit	1,657,219	1,649,135	3.67%	1,691,081	102.5%	41,946	0.20%	2.5%	5.48%	14,418,001	0.1173	0.1149	0.0023	1,616,799	32,336
Total Standard Mail (A)	12,079,463	12,020,539	26.72%	15,380,796	128.0%	3,360,257	16.10%	28.0%	60.25%	90,832,291	0.1693	0.1330	0.0363	11,784,842	235,697
Standard Mail (B)															
Parcel Post	1,108,626	1,103,218	2.45%	1,197,801	108.6%	94,583	0.45%	8.6%	18.48%	378,447	3.1650	2.9294	0.2356	1,081,586	21,632
Bound Printed Matter	495,499	493,082	1.10%	492,554	99.9%	(528)	0.00%	-0.1%	-0.23%	541,976	0.9088	0.9142	-0.0054	483,414	9,668
Special Rate	314,765	313,230	0.70%	327,631	104.6%	14,402	0.07%	4.6%	9.91%	208,687	1.5700	1.5083	0.0617	307,088	6,142
Library Rate	49,699	49,457	0.11%	48,517	98.1%	(940)	0.00%	-1.9%	-4.10%	29,009	1.6725	1.7132	-0.0408	48,487	970
Total Standard Mail (B)	1,968,589	1,958,986	4.36%	2,066,503	105.5%	107,517	0.52%	5.5%	11.83%	1,158,118	1.7844	1.6998	0.0845	1,920,575	38,411
Penalty										348,543	0.0000	0.0000			
Free-for-the-Blind	43,455	43,243	0.10%	0	0.0%	(43,243)	-0.21%		0.00%	56,675	0.0000	0.7667	-0.7667	42,395	848
Total Domestic Mail	42,016,207	41,811,250	92.96%	62,060,012	148.4%	20,248,762	97.02%	48.4%	104.38%	210,102,726	0.2954	0.2000	0.0954	40,991,421	819,828
International Mail	1,496,493	1,489,193	3.31%	1,741,131	116.9%	251,938	1.21%	16.9%	36.46%	1,066,939	1.6319	1.4026	0.2293	1,459,993	29,200
Total All Mail	43,512,700	43,300,443	96.27%	63,801,143	147.3%	20,500,700	98.23%	47.3%	102.04%	211,169,665	0.3021	0.2061	0.0961	42,451,415	849,028
Special Services															
Registry	86,041	85,621	0.19%	81,435	95.1%	(4,186)	-0.02%	-4.9%	-10.54%	11,563	7.0427	7.4411	-0.3983	83,942	1,679
Certified Mail	544,034	541,380	1.20%	414,039	76.5%	(127,341)	-0.61%	-23.5%	-50.69%	295,742	1.4000	1.8396	-0.4396	530,765	10,615
Insurance	79,658	79,269	0.18%	89,575	113.0%	10,306	0.05%	13.0%	28.02%	45,610	1.9639	1.7465	0.2174	77,715	1,554
COD	16,850	16,768	0.04%	18,373	109.6%	1,605	0.01%	9.6%	20.63%	3,576	5.1379	4.7120	0.4259	16,439	329
Money Orders	157,644	156,875	0.35%	283,544	180.7%	126,669	0.61%	80.7%	174.03%	234,993	1.2066	0.6708	0.5358	153,799	3,076
Stamped Cards	3,444	3,427	0.01%	4,458	130.1%	1,031	0.00%	30.1%	64.82%	445,823	0.0100	0.0077	0.0023	3,360	67
Stamped Envelopes	12,468	12,407	0.03%	12,515	100.9%	108	0.00%	0.9%	1.88%	400,000	0.0313	0.0312	0.0001	12,164	243
Box/Caller Service	587,939	585,071	1.30%	746,829	127.6%	161,758	0.78%	27.6%	59.59%	18,246	40.9311	32.2229	8.7082	573,599	11,472
Other	199,407	198,434	0.44%	397,604	200.4%	199,169	0.95%		0.00%					194,543	3,891
Total Special Services	1,687,485	1,679,253	3.73%	2,048,373	122.0%	369,119	1.77%	22.0%	47.37%					1,646,327	32,927
Total Mail & Services	45,200,185	44,979,696	100.00%	65,849,516	146.4%	20,869,820	100.00%	46.4%	100.00%	211,169,665	0.3118	0.2140	0.0978	44,097,741	881,955
Other Costs	24,592,811	24,472,846												23,992,986	479,860
Other Income				383,847											
Prior Years Loss Recovery	268,257	268,257												268,257	-
Continuing Appropriations				67,093											
Investment Income				(25,390)											
Grand Total	70,061,253	69,720,799		66,275,066		(3,445,733)								68,358,985	1,361,815

Source: LR-I-131, Volume H, Table E, 2% contingency instead of 2.5%

1/ See TY (PRC COST METHOD) spreadsheet (page 2) for First-Class S.P. Volume Variable Costs

Summary of Estimated R97-1 Test Year After Rates Finances
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Cost	% of Vol Var Costs (1) / Total (1)	Revenue	Cost Coverage (3) / (1)	Contrib To Oth Costs (3) - (1)	% of Other Costs (5) / Total (5)	Mark Up (4) - 1	Mark Up Index (7) / Total (7)	Mail Volume	Unit Revenue (3) / (9)	Unit Cost (1) / (9)	Unit Contrib (10) - (11)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
First-Class Mail												
Single-Piece Letters	14,805,870	37.84%	22,063,820	149.0%	7,257,950	33.85%	49.0%	89.45%	54,103,260	0.4078	0.2737	0.1341
Presort and Automation Letters	4,604,216	11.77%	11,390,558	247.4%	6,786,342	31.65%	147.4%	268.97%	41,631,484	0.2736	0.1106	0.1630
Total Letters	19,410,086	49.60%	33,454,378	172.4%	14,044,292	65.49%	72.4%	132.03%	95,734,744	0.3494	0.2027	0.1467
Single-Piece Cards	513,046	1.31%	648,470	126.4%	135,424	0.63%	26.4%	48.17%	3,137,601	0.2067	0.1635	0.0432
Presort and Automation Cards	192,814	0.49%	413,842	214.6%	221,028	1.03%	114.6%	209.18%	2,554,340	0.1620	0.0755	0.0865
Total Cards	705,860	1.80%	1,062,312	150.5%	356,452	1.66%	50.5%	92.15%	5,691,941	0.1866	0.1240	0.0626
Total First-Class Mail	20,115,946	51.41%	34,516,690	171.6%	14,400,744	67.16%	71.6%	130.64%	101,426,685	0.3403	0.1983	0.1420
Priority Mail	2,419,607	6.18%	4,019,575	166.1%	1,599,968	7.46%	66.1%	120.67%	1,058,587	3.7971	2.2857	1.5114
Express Mail	730,059	1.87%	829,118	113.6%	99,059	0.46%	13.6%	24.76%	59,258	13.9917	12.3200	1.6717
Mailgrams	567	0.00%	4,680	825.4%	4,113	0.02%	725.4%	1323.71%	4,761	0.9830	0.1191	0.8639
Periodicals		0.00%										
Within County	88,291	0.23%	88,777	100.6%	486	0.00%	0.6%	1.00%	963,995	0.0921	0.0916	0.0005
Outside County	2,048,194	5.23%	2,064,843	100.8%	16,649	0.08%	0.8%	1.48%	9,338,099	0.2211	0.2193	0.0018
Total Periodicals	2,136,485	5.46%	2,153,620	100.8%	17,135	0.08%	0.8%	1.46%	10,302,094	0.2090	0.2074	0.0017
Standard Mail (A)												
Regular	5,956,215	15.22%	8,017,298	134.6%	2,061,083	9.61%	34.6%	63.15%	37,858,286	0.2118	0.1573	0.0544
Enhanced Carrier Route	2,108,423	5.39%	4,280,273	203.0%	2,171,850	10.13%	103.0%	187.97%	28,759,024	0.1488	0.0733	0.0755
Total Commercial	8,064,638	20.61%	12,297,571	152.5%	4,232,933	19.74%	52.5%	95.78%	66,617,310	0.1846	0.1211	0.0635
Nonprofit	1,170,702	2.99%	1,331,075	113.7%	160,373	0.75%	13.7%	25.00%	10,550,230	0.1262	0.1110	0.0152
Enhanced Carrier Route	135,689	0.35%	194,080	143.0%	58,391	0.27%	43.0%	78.53%	2,591,051	0.0749	0.0524	0.0225
Total Nonprofit	1,306,391	3.34%	1,525,155	116.7%	218,764	1.02%	16.7%	30.56%	13,141,281	0.1161	0.0994	0.0166
Total Standard Mail (A)	9,371,029	23.95%	13,822,726	147.5%	4,451,697	20.76%	47.5%	86.69%	79,758,591	0.1733	0.1175	0.0558
Standard Mail (B)												
Parcel Post	685,910	1.75%	740,510	108.0%	54,600	0.25%	8.0%	14.53%	215,784	3.4317	3.1787	0.2530
Bound Printed Matter	387,175	0.99%	524,849	135.6%	137,674	0.64%	35.6%	64.89%	575,065	0.9127	0.6733	0.2394
Special Rate	311,852	0.80%	329,349	105.6%	17,497	0.08%	5.6%	10.24%	206,671	1.5936	1.5089	0.0847
Library Rate	60,221	0.15%	49,424	82.1%	(10,797)	-0.05%	-17.9%	-32.72%	29,856	1.6554	2.0170	-0.3616
Total Standard Mail (B)	1,445,158	3.69%	1,644,132	113.8%	198,974	0.93%	13.8%	25.12%	1,027,376	1.6003	1.4066	0.1937
Penalty									298,093			
Free-for-the-Blind	36,654	0.09%	0	0.0%	(36,654)	-0.17%	-100.0%	-182.48%	56,427	0.0000	0.6496	-0.6496
Total Domestic Mail	36,255,505	92.65%	56,990,541	157.2%	20,735,036	96.70%	57.2%	104.36%	193,991,872	0.2938	0.1869	0.1069
International Mail	1,312,380	3.35%	1,643,844	125.3%	331,464	1.55%	25.3%	46.09%	1,006,743	1.6328	1.3036	0.3292
Total All Mail	37,567,885	96.01%	58,634,385	156.1%	21,066,500	98.24%	56.1%	102.33%	194,998,615	0.3007	0.1927	0.1080
Special Services												
Registry	86,937	0.22%	107,320	123.4%	20,383	0.10%	23.4%	42.78%	15,178	7.0708	5.7278	1.3429
Certified Mail	47,223	0.12%	68,320	144.7%	21,097	0.10%	44.7%	81.52%	30,247	2.2587	1.5612	0.6975
Insurance	369,180	0.94%	415,147	112.5%	45,967	0.21%	12.5%	22.72%	296,534	1.4000	1.2450	0.1550
COD	18,880	0.05%	18,963	100.4%	83	0.00%	0.4%	0.80%	3,887	4.8786	4.8572	0.0214
Money Orders *	156,798	0.40%	230,282	146.9%	73,484	0.34%	46.9%	85.52%	241,071	0.9552	0.6504	0.3048
Stamped Cards	4,746	0.01%	5,907	124.5%	1,161	0.01%	24.5%	44.64%	590,659	0.0100	0.0080	0.0020
Stamped Envelopes	14,413	0.04%	14,567	101.1%	154	0.00%	1.1%	1.95%	460,000	0.0317	0.0313	0.0003
Box/Caller Service	595,268	1.52%	652,537	109.6%	57,269	0.27%	9.6%	17.56%	15,147	43.0803	39.2994	3.7809
Other	268,648	0.69%	425,948	158.6%	157,300	0.73%	58.6%	106.85%	81,352	5.2359	3.3023	1.9336
Total Special Services	1,562,093	3.99%	1,938,991	124.1%	376,898	1.76%	24.1%	44.03%	1,734,075	1.1182	0.9008	0.2173
Total Mail & Services	39,129,978	100.00%	60,573,376	154.8%	21,443,398	100.00%	54.8%	100.00%	194,998,615	0.3106	0.2007	0.1100
Other Costs	21,364,616											
Other Income			202,733									
Prior Years Loss Recovery	377,063											
Continuing Appropriations			67,498									
Investment Income *			47,762									
Grand Total	60,871,657		60,891,369		19,712							

(1) Docket No. R97-1, PRC Opinion, p. 223
(3) Docket No. R97-1, PRC Opinion, App. G

Summary of Estimated Test Year After Rates Finances at USPS Proposed Rates
(Except 33-Cent First-Class Rate)
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs (1)	% of Vol Variable Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (4) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - (1) (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)
First-Class Mail												
Single-Piece Letters	14,780,313	33.3%	22,306,818	150.9%	7,526,505	32.5%	50.9%	97.5%	53,213,828	0.4192	0.2778	0.1414
Presort and Automation Letters	5,453,740	12.3%	12,783,497	234.4%	7,329,757	31.6%	134.4%	257.4%	47,047,898	0.2717	0.1159	0.1558
Total Letters	20,234,053	45.6%	35,090,315	173.4%	14,856,262	64.1%	73.4%	140.6%	100,261,726	0.3500	0.2018	0.1482
Single-Piece Cards	592,305	1.3%	603,902	102.0%	11,597	0.1%	2.0%	3.7%	2,770,783	0.2180	0.2138	0.0042
Presort and Automation Cards	181,167	0.4%	448,787	247.7%	267,620	1.2%	147.7%	282.9%	2,670,168	0.1681	0.0678	0.1002
Total Cards	773,472	1.7%	1,052,689	136.1%	279,217	1.2%	36.1%	69.1%	5,440,951	0.1935	0.1422	0.0513
Total First-Class Mail	21,007,525	47.3%	36,143,004	172.0%	15,135,479	65.3%	72.0%	138.0%	105,702,677	0.3419	0.1987	0.1432
Priority Mail	3,332,232	7.5%	5,542,259	166.3%	2,210,027	9.5%	66.3%	127.0%	1,249,750	4.4347	2.6663	1.7684
Express Mail	705,801	1.6%	1,068,567	151.4%	362,766	1.6%	51.4%	98.4%	72,301	14.7794	9.7620	5.0174
Mailgrams	1,134	0.0%	1,136	100.1%	2	0.0%	0.1%	0.3%	3,340	0.3400	0.3395	0.0005
Periodicals		0.0%										
Within County	84,139	0.2%	81,847	97.3%	(2,292)	0.0%	-2.7%	-5.2%	862,061	0.0949	0.0976	-0.0027
Outside County	2,522,213	5.7%	2,416,926	95.8%	(105,287)	-0.5%	-4.2%	-8.0%	9,459,105	0.2555	0.2666	-0.0111
Total Periodicals	2,606,352	5.9%	2,498,774	95.9%	(107,578)	-0.5%	-4.1%	-7.9%	10,321,166	0.2421	0.2525	-0.0104
Standard Mail (A)												
Regular	7,402,439	16.7%	9,070,437	122.5%	1,667,998	7.2%	22.5%	43.2%	40,998,656	0.2212	0.1806	0.0407
Enhanced Carrier Route	2,635,907	5.9%	5,162,024	195.8%	2,526,117	10.9%	95.8%	183.6%	32,828,211	0.1572	0.0803	0.0769
Total Commercial	10,038,346	22.6%	14,232,461	141.8%	4,194,115	18.1%	41.8%	80.0%	73,826,867	0.1928	0.1360	0.0568
Nonprofit	1,425,673	3.2%	1,543,087	108.2%	117,414	0.5%	8.2%	15.8%	11,425,579	0.1351	0.1248	0.0103
Enhanced Carrier Route	222,129	0.5%	264,218	118.9%	42,089	0.2%	18.9%	36.3%	2,851,875	0.0926	0.0779	0.0148
Total Nonprofit	1,647,802	3.7%	1,807,305	109.7%	159,503	0.7%	9.7%	18.5%	14,277,454	0.1266	0.1154	0.0112
Total Standard Mail (A)	11,686,148	26.3%	16,039,766	137.3%	4,353,618	18.8%	37.3%	71.4%	88,104,321	0.1821	0.1326	0.0494
Standard Mail (B)												
Parcel Post	1,081,997	2.4%	1,211,453	112.0%	129,456	0.6%	12.0%	22.9%	374,096	3.2383	2.8923	0.3461
Bound Printed Matter	481,326	1.1%	563,443	117.1%	82,117	0.4%	17.1%	32.7%	524,743	1.0738	0.9173	0.1565
Special Rate	311,038	0.7%	338,764	108.9%	27,726	0.1%	8.9%	17.1%	205,789	1.6462	1.5114	0.1347
Library Rate	48,828	0.1%	49,672	101.7%	844	0.0%	1.7%	3.3%	28,432	1.7470	1.7174	0.0297
Total Standard Mail (B)	1,923,189	4.3%	2,163,332	112.5%	240,143	1.0%	12.5%	23.9%	1,133,060	1.9093	1.6973	0.2119
Penalty								0.0%	348,543		0.0000	
Free-for-the-Blind	43,501	0.1%	0	0.0%	(43,501)	-0.2%		0.0%	56,675	0.0000	0.7676	-0.7676
Total Domestic Mail	41,305,882	93.1%	63,456,837	153.6%	22,150,955	95.6%	53.6%	102.7%	206,991,833	0.3066	0.1996	0.1070
International Mail	1,451,585	3.3%	1,747,558	120.4%	295,973	1.3%	20.4%	39.1%	1,031,627	1.6940	1.4071	0.2869
Total All Mail	42,757,467	96.3%	65,204,395	152.5%	22,446,928	96.9%	52.5%	100.6%	208,023,460	0.3134	0.2055	0.1079
Special Services												
Registry	82,759	0.2%	94,993	114.8%	12,234	0.1%	14.8%	28.3%	11,174	8.5013	7.4064	1.0949
Certified Mail	507,537	1.1%	577,361	113.8%	69,824	0.3%	13.8%	26.3%	274,934	2.1000	1.8460	0.2540
Insurance	78,113	0.2%	106,070	135.8%	27,957	0.1%	35.8%	68.6%	44,680	2.3740	1.7483	0.6257
COD	16,727	0.0%	19,968	119.4%	3,241	0.0%	19.4%	37.1%	3,544	5.6343	4.7198	0.9145
Money Orders	152,143	0.3%	305,488	200.8%	153,345	0.7%	100.8%	193.0%	226,435	1.3491	0.6719	0.6772
Stamped Cards	3,444	0.0%	8,317	241.5%	4,873	0.0%	141.5%	271.0%	415,873	0.0200	0.0083	0.0117
Stamped Envelopes	12,473	0.0%	16,041	128.6%	3,568	0.0%	28.6%	54.8%	400,000	0.0401	0.0312	0.0089
Box/Caller Service	579,812	1.3%	814,060	140.4%	234,248	1.0%	40.4%	77.4%	17,958	45.3313	32.2871	13.0442
Other	199,606	0.4%	419,918	210.4%	220,312	1.0%	110.4%	211.4%				
Total Special Services	1,632,614	3.7%	2,362,217	144.7%	729,603	3.1%	44.7%	85.6%				
Total Mail & Services	44,390,081	100.0%	67,566,612	152.2%	23,176,531	100.0%	52.2%	100.0%	208,023,460	0.3248	0.2134	0.1114
Other Costs	24,584,124											
Other Income			383,847									
Prior Years Loss Recovery	268,257											
Continuing Appropriations			67,093									
Investment Income			(27,621)									
Grand Total	69,242,462		67,989,931		(1,252,531)							

Source: Exhibit MMA-1B at 2A; First-Class Revenue, Costs and Volume from 1B

Exhibit MMA-1C

Derivation of Potential Revenue Reduction From MMA's First-Class Rate Proposals

Derivation of Potential Revenue Reduction From MMA's First-Class Rate Proposals

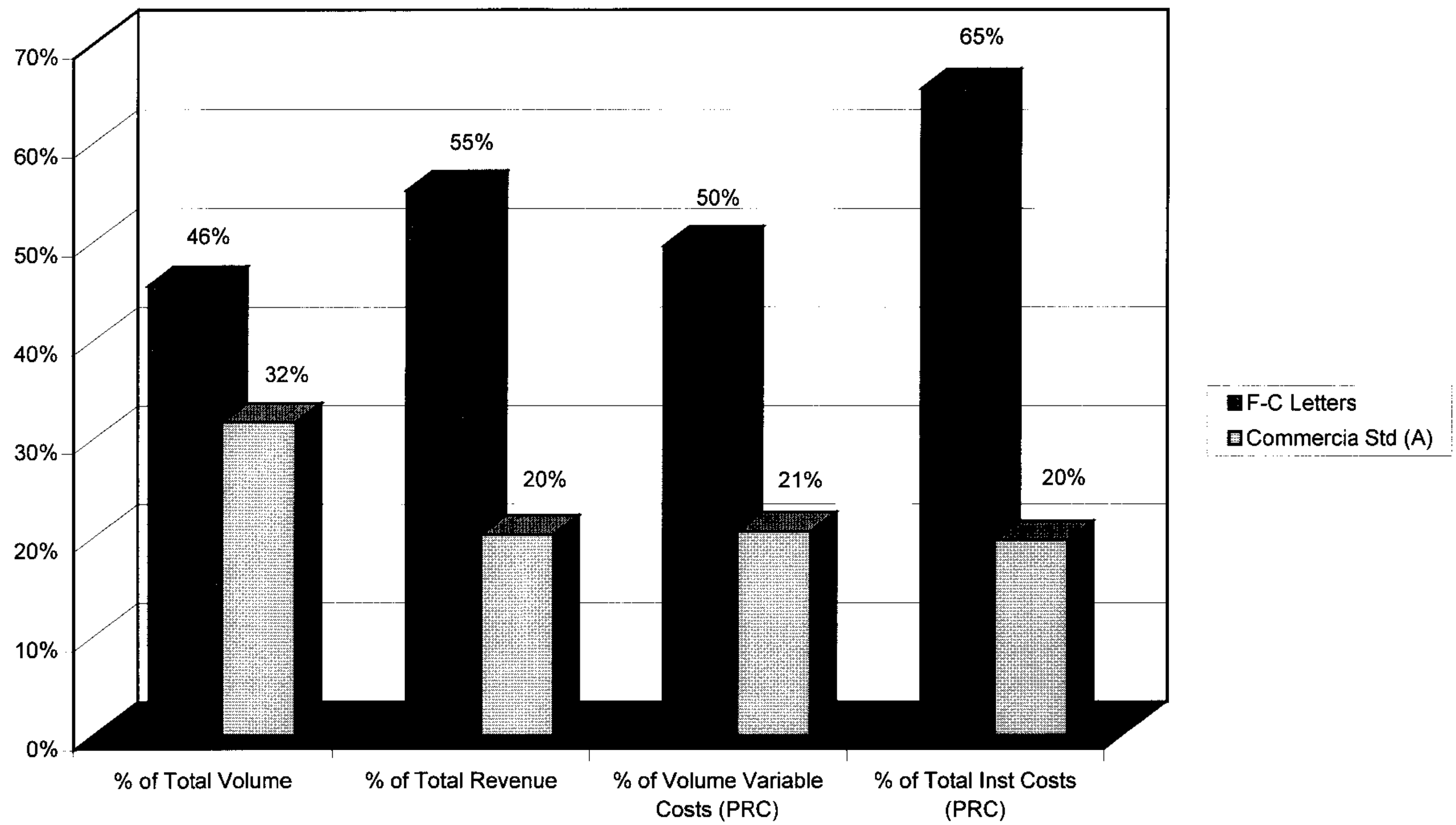
First-Class Rate Category	(1) Proposed 1-oz Rate Reducton (Cents)	(2) TY AR Workshare Volume (000)	(3) Revenue Reduction (000)	(4) Proposed 2-oz Rate Reduction (Cents)	(5) TY AR Workshare Volume (000) 1 - 2 oz.		(6) Revenue Reduction (000)	(7) Combined Revenue Reduction (000)
Non-Automation	0	2,586,288	$ -	4.6	56,739		$ 2,610	$ 2,610
Basic Automation	0.2	5,620,726	$ 11,241	4.6	123,310		$ 5,672	$ 16,914
3-Digit Automation	0.5	24,508,201	$ 122,541	4.6	537,670		$ 24,733	$ 147,274
5-Digit Automation	0.5	12,362,727	$ 61,814	4.6	271,218		$ 12,476	$ 74,290
Carrier Route	0.5	1,544,810	$ 7,724	4.6	33,891		$ 1,559	$ 9,283
All Presorted Letters		46,622,752	$ 203,320		1,022,827	(8)	$ 47,050	$ 250,370

(1) MMA Proposal
(2) USPS-T-33, Workpaper, p. 4 (Revised 4/17/00)
(3) (1) x (2)
(4) MMA Proposal
(5) (8) based on col (2)
(6) (4) x (5)
(7) (3) + (6)
(8) LR-I-91A (Revised), Pre Letters Combined spreadsheet: (46,622,752 / 46,449,168) * 1,019,019 = 1,022,827

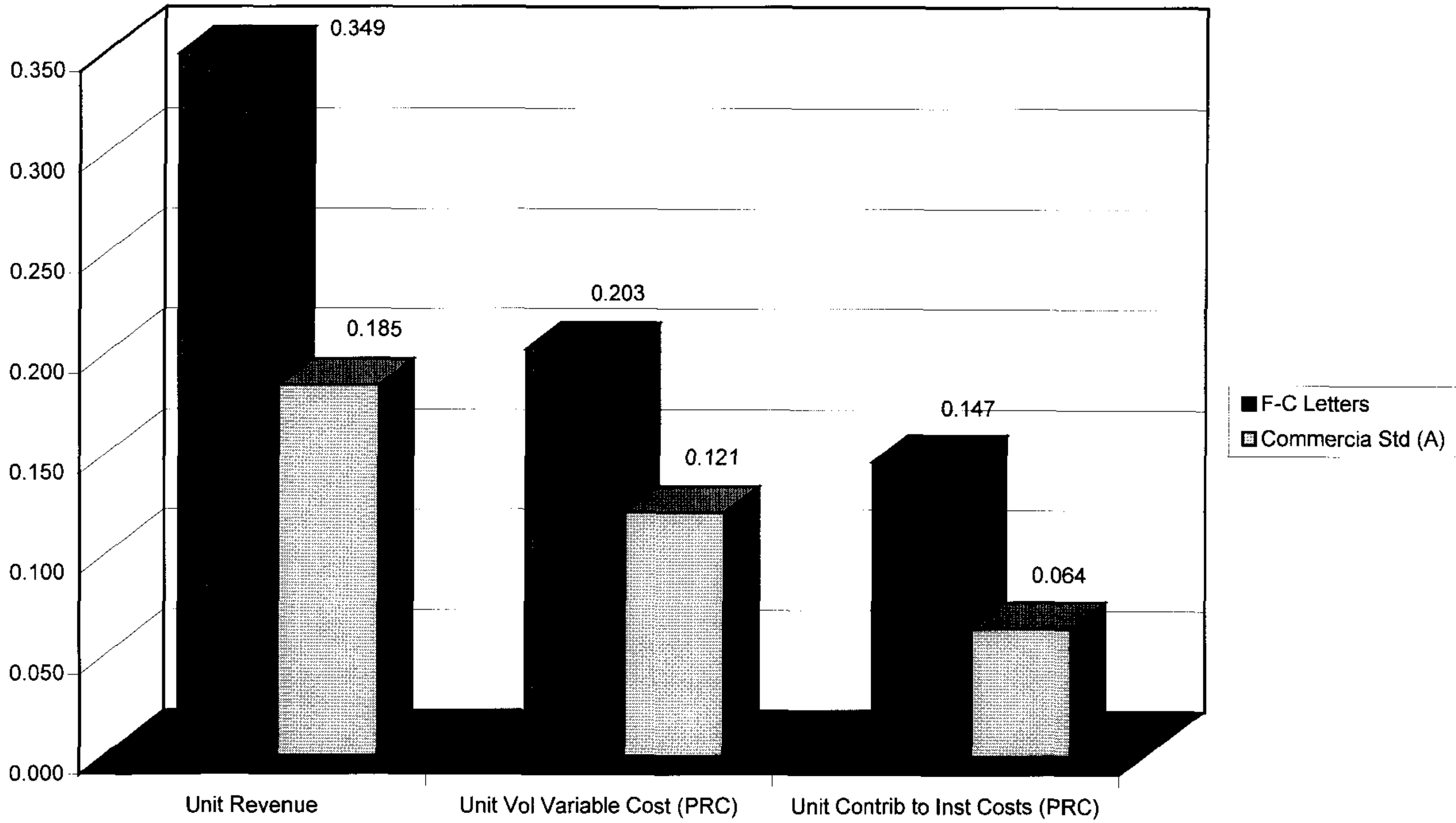
Exhibit MMA-1D

Comparison of Selected TY AR First-Class and Commercial Standard A Data

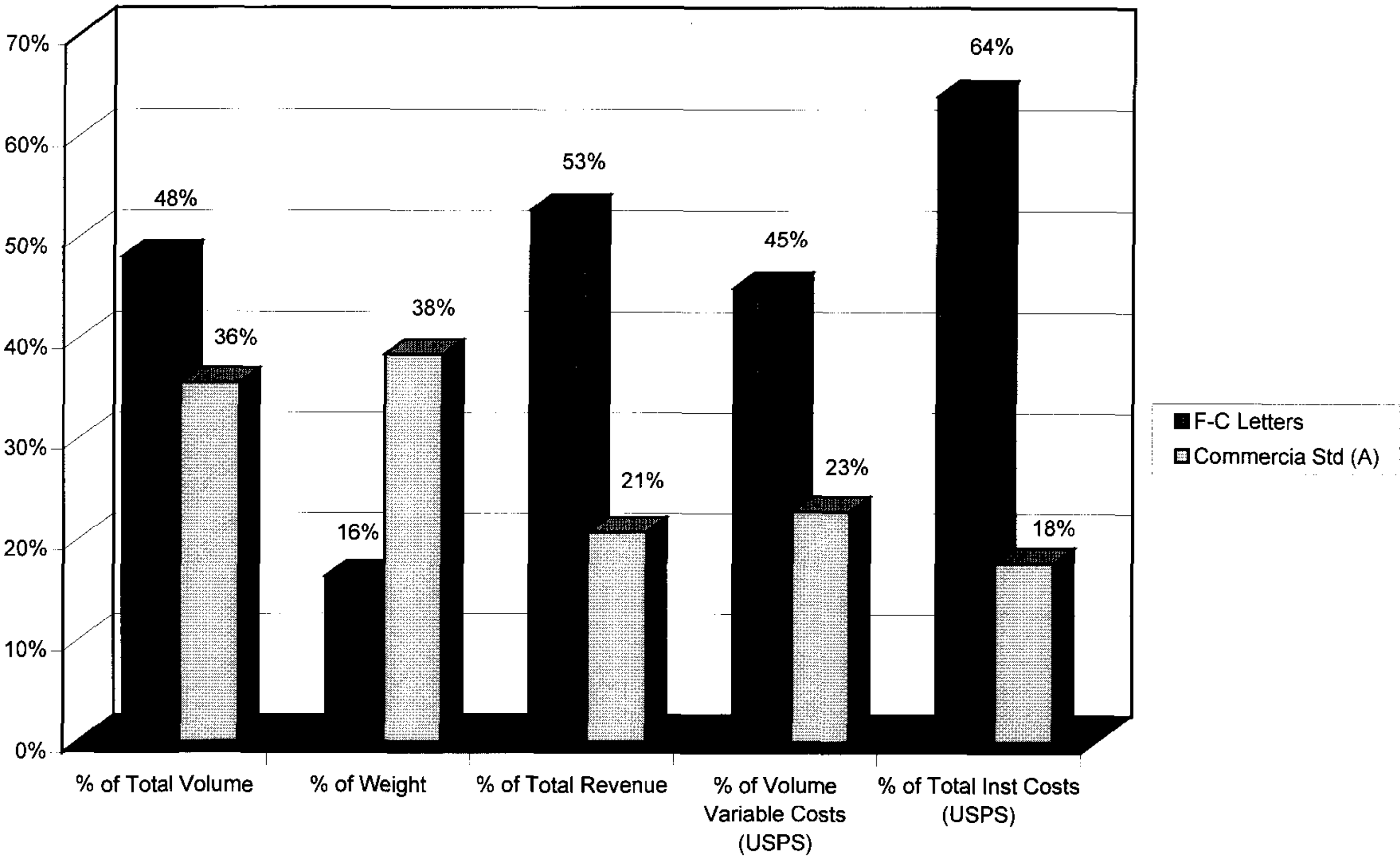
**Comparison of First-Class and Commercial Standard (A) Mail
As Recommended by the Commission
(Docket No. R97-1, TY AR)**



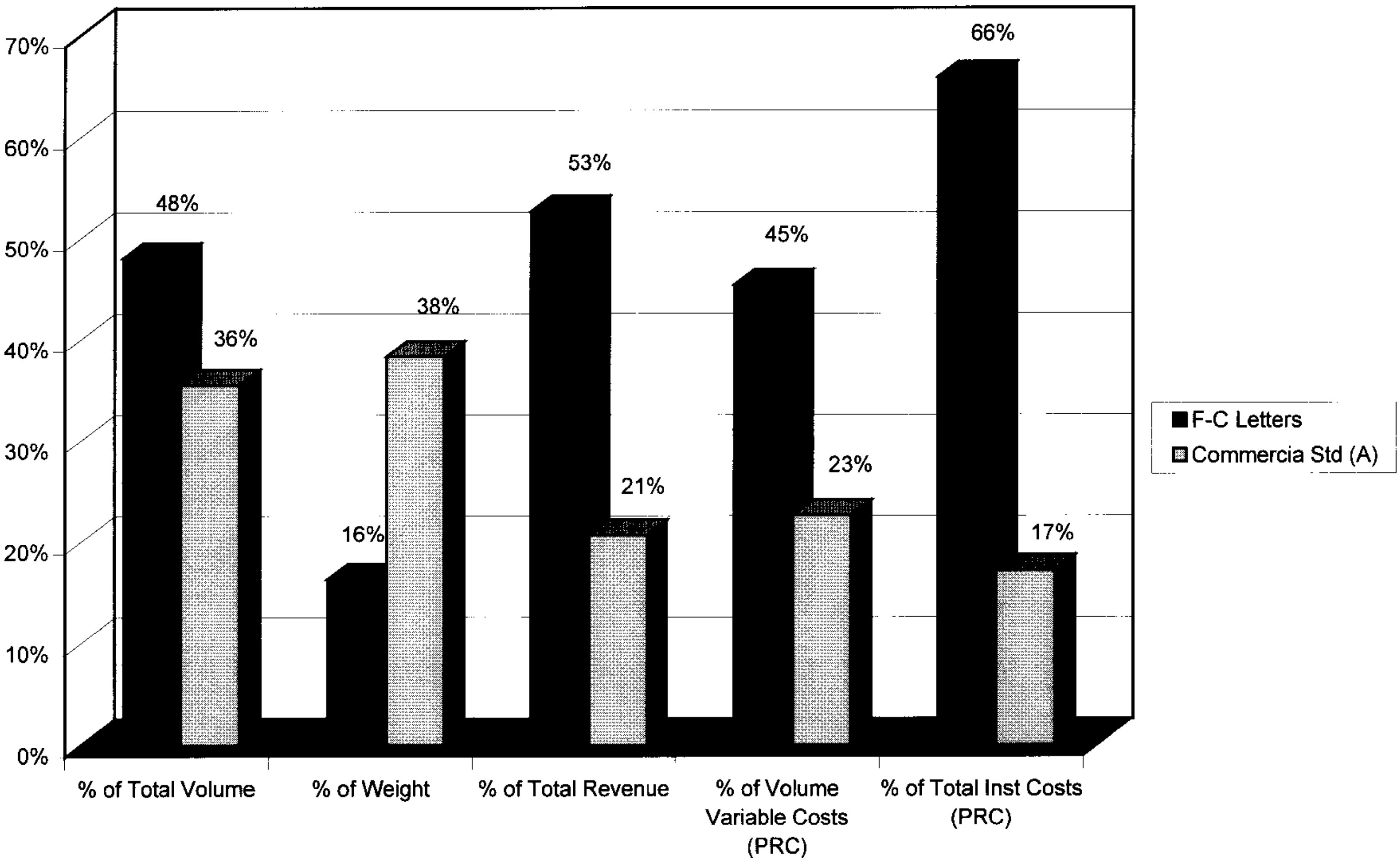
Comparison of First-Class and Commercial Standard (A) Unit Revenues, Costs and Contribtuions to Institutional Costs As Recommended by the Commission (Docket No. R97-1, TY AR)



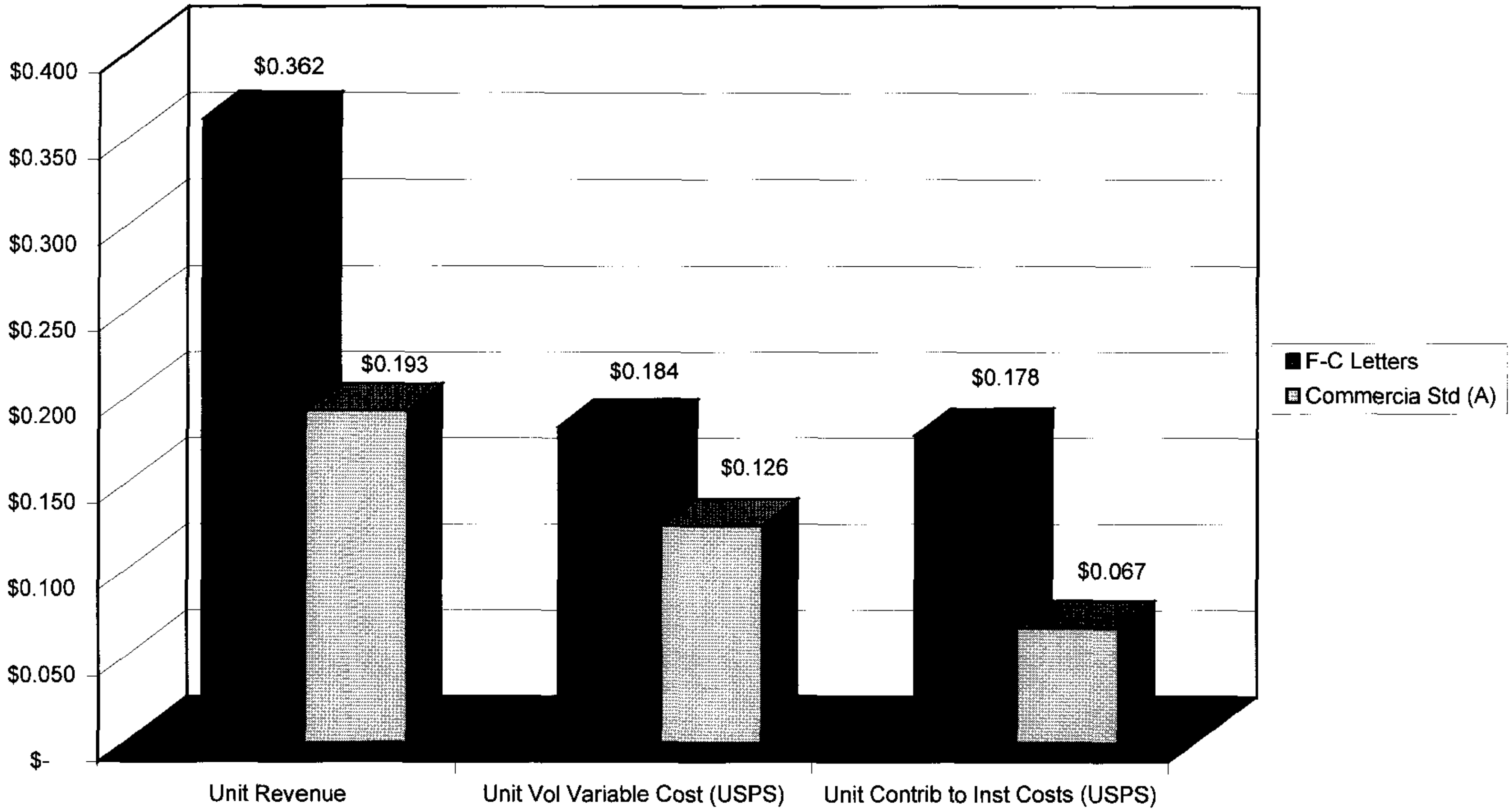
Comparison of First-Class and Commercial Standard (A) Using USPS Cost Methodology (Docket No. R2000-1, TY AR)



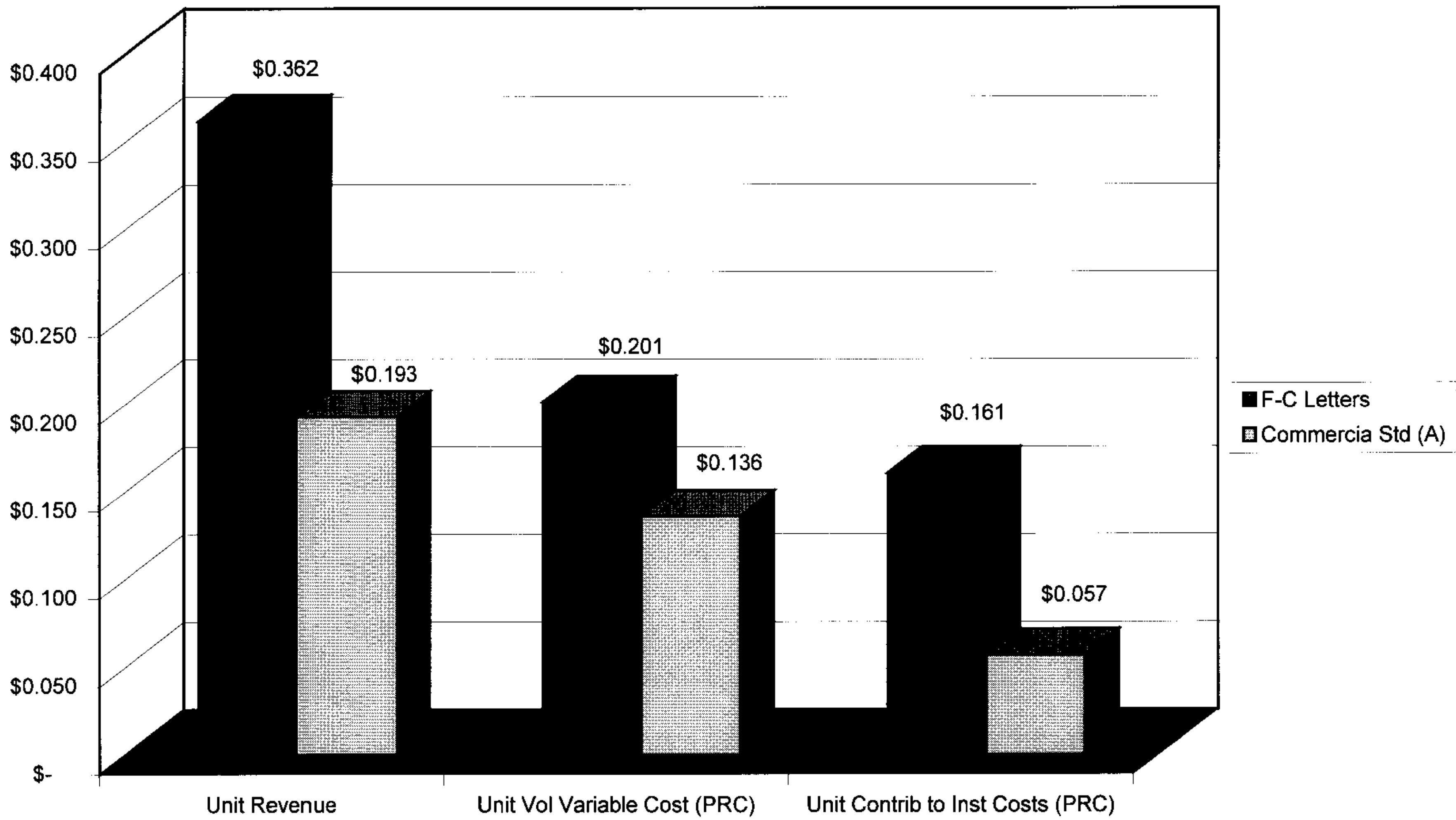
Comparison of First-Class and Commercial Standard (A) Using PRC Cost Methodology (Docket No. R2000-1, TY AR)



Comparison of First-Class and Commercial Standard (A) Unit Revenues, Costs and Contribtuions to Institutioinal Costs Using USPS Cost Methodology (Docket No. R2000-1, TY AR)



Comparison of First-Class and Commercial Standard (A) Unit Revenues, Costs and Contributions to Institutional Costs Using PRC Cost Methodology (Docket No. R2000-1, TY AR)



Comparison of Selected TY AR First-Class and Commercial Standard A Data
(Millions Except for Units)

Test Year After Rate Data	(1) F-C Letters	(2) Commercia Std (A)	(3) First-Class and Standard Mail (A)	(4) Total All Mail	Source
(5) Volume (Pieces)	99,857	73,827	173,684	207,619	Exhibit MMA-1B at1A
(6) % of Total Volume	48%	36%			Col / Total (5)
(7) Weight (Pounds)	4,282	10,050	14,333	26,203	USPS-T-14 at 8, 15, 19
(8) % of Weight	16%	38%			Col / Total (5)
(9) Revenue	36,166	14,232	50,398	68,642	Exhibit MMA-1B at 1A
(10) % of Total Revenue	53%	21%			Col / Total (5)
(11) Volume Variable Costs (USPS)	18,346	9,296	27,641	40,780	Exhibit MMA-1B at 1A
(12) % of Volume Variable Costs (USPS)	45%	23%			Col / Total (5)
(13) Volume Variable Costs (PRC)	20,112	10,038	30,150	44,268	Exhibit MMA-1B at 1B
(14) % of Volume Variable Costs (PRC)	45%	23%			Col / Total (5)
(15) Contrib to Inst Costs (USPS)	17,820	4,937	22,757	27,862	Exhibit MMA-1B at 1A
(16) % of Total Inst Costs (USPS)	64%	18%			Col / Total (5)
(17) Contrib to Inst Costs (PRC)	16,054	4,194	20,248	24,374	Exhibit MMA-1B at 1B
(18) % of Total Inst Costs (PRC)	66%	17%			Col / Total (5)
(19) Unit Revenue	$ 0.362	$ 0.193	$ 0.2902	$ 0.3306	(9) / (5)
(20) Unit Vol Variable Cost (USPS)	$ 0.184	$ 0.126	$ 0.1591	$ 0.1964	(11) / (5)
(21) Unit Vol Variable Cost (PRC)	$ 0.201	$ 0.136	$ 0.1736	$ 0.2132	(13) / (5)
(22) Unit Contrib to Inst Costs (USPS)	$ 0.178	$ 0.067	$ 0.1310	$ 0.1342	(16) / (5)
(23) Unit Contrib to Inst Costs (PRC)	$ 0.161	$ 0.057	$ 0.1166	$ 0.1174	(18) / (5)

PRC Docket No. R97-1 Recommendations

	F-C Letters	Commercia Std (A)	Total All Mail	
(24) Volume (Pieces)	95,735	66,617	210,103	Exhibit MMA-1B at 5A
	46%	32%		
(25) Revenue	33,454	12,298	60,573	Exhibit MMA-1B at 5A
	55%	20%		
(26) Volume Variable Costs	19,410	8,065	39,130	Exhibit MMA-1B at 5A
	50%	21%		
(27) Contrib to Inst Costs	14,044	4,233	21,443	Exhibit MMA-1B at 5A
	65%	20%		
(28) Unit Revenue	0.349	0.185	0.288	(25) / (24)
(29) Unit Vol Variable Cost	0.203	0.121	0.186	(26) / (24)
(30) Unit Contrib to inst Costs	0.147	0.064	0.102	(27) / (24)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

Michael W. Hall

Round Hill, VA
May 22, 2000