

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
ROGER C. PRESCOTT

On Behalf Of
MAIL ORDER ASSOCIATION OF AMERICA

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LIST OF EXHIBITS

<u>EXHIBIT</u> (1)	<u>TITLE</u> (2)
Exhibit MOAA-RT-2A	Comparison of Proposed Rates for Bound Printed Matter-- USPS' Witness Kiefer v. AAP's Witness Siwek (105%)
Exhibit MOAA-RT-2B	Comparison of Proposal Rates for Bound Printed Matter-- USPS' Witness Kiefer v. AAP's Witness Siwek (117.6%)
Exhibit MOAA-RT-2C	Calculation of TYAR Revenues Based on MOAA's Proposed Rates and USPS Target Revenues
Exhibit MOAA-RT-2D	Comparison of Proposed Rates for Bound Printed Matter-- USPS' Witness Kiefer and MOAA's Restatement (117.6%)

**REBUTTAL TESTIMONY
OF
ROGER C. PRESCOTT**

1 My name is Roger C. Prescott. I am an economist and Executive Vice President of the
2 economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at
3 1501 Duke Street, Suite 200, Alexandria, Virginia 22314. I am the same Roger C. Prescott who
4 submitted Direct Testimony in this proceeding dated May 22, 2000 on behalf of Mail Order
5 Association of America ("MOAA-T-1").^{1/} My qualifications and experience were attached as
6 Appendix A to my Direct Testimony. In this current proceeding, Postal Rate Commission
7 ("PRC") Docket No. R2000-1, Postal Rate and Fee Changes, 2000 ("Docket No. R2000-1"), the
8 United States Postal Service ("USPS") submitted proposed changes to the rates for Standard (B)
9 Bound Printed Matter ("BPM") mail. The USPS' proposed rates, for the first time, include
10 destination entry discounts for BPM mail.

^{1/} I also submitted Direct Testimony in this proceeding on behalf of E-Stamp Corporation.

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I. PURPOSE OF TESTIMONY

I have been requested by Mail Order Association of America ("MOAA") to review the proposed rates for BPM as shown in Witness Stephen E. Siwek's direct testimony submitted on behalf of the Association of American Publishers ("AAP-T-2"). Specifically, I have been asked to evaluate Witness Siwek's proposed adjustments to the USPS' rates and destination entry discounts for BPM mail. Witness Siwek's proposed rates are summarized in AAP-T-2, Attachment-6, Page 1 to his testimony. In addition, I have been asked to evaluate the reasonableness of Witness Siwek's proposed discounts versus the discount proposed in my Direct Testimony for BPM mail entered at the Destination Delivery Unit ("DDU").

The detail supporting Witness Siwek's proposed rates is shown in Attachment-7 to Witness Siwek's testimony. Witness Siwek has used the model for BPM rates as submitted by USPS' Witness Kiefer (USPS-T-37) in presenting his proposed rates. Witness Kiefer's rate structure was summarized in Library Reference USPS-LR-I-325 ("LR-325").^{2/} A comparison of the rates for BPM mail as proposed by the USPS and Witness Siwek are included as Exhibit MOAA-RT-2A to this testimony.

The results of my review and analysis are summarized under the following topics:

^{2/} LR-325 reflected some minor changes to the volumes for BPM mail that were not included as part of Witness Kiefer's workpapers. My restatement here relies on LR-325. Witness Siwek relied on Witness Kiefer's workpapers which did not incorporate the volume changes.

- 1 II. Summary and Conclusions
- 2 III. Witness Siwek's Critique of USPS' Rates for BPM
- 3 IV. Comparison of Rate Proposals for BPM

1 **II. SUMMARY AND CONCLUSIONS**

2 Based on my review and analysis of the rates for BPM proposed by the parties in this
3 proceeding, I conclude the following:

- 4 1. Witness Siwek has proposed that the destination entry discount equal \$0.195 per piece at
5 the destination Bulk Mail Center ("DBMC") with no increase in the discount for mail
6 entered at the destination Sectional Center Facility ("DSCF") and DDU. Such a rate
7 structure provides no incentive for mailers to enter mail deeper into the USPS' mail
8 system. Witness Siwek's proposal also fails to recognize the substantial additional cost
9 savings to the USPS from mail entered at the DSCF and DDU.
- 10 2. Based on the USPS' proposed cost coverage of 117.6 percent, Witness Siwek's basic rate
11 per piece would be increased from \$0.865 per piece to \$0.959 per piece.
- 12 3. Witness Siwek's claim that the initial destination entry discounts for Parcel Post mail only
13 considered discounts for DBMC is irrelevant to this proceeding. In Docket No. R90-1^{3/},
14 only DBMC discounts were instituted for Parcel Post because the USPS did not develop
15 the cost savings for Parcel Post entered at the DSCF or DDU.
- 16 4. Witness Siwek's argument that the mailing requirements and the exact volumes applicable
17 for the discounts are unknown are misplaced and do not support a rejection of the USPS'
18 proposed discounts. The unknowns associated with instituting new destination entry
19 discounts in this proceeding are no different than past proceedings where discounts were
20 instituted for other subclasses prior to the publication of mailing requirements (e.g., Third
21 Class Bulk Rate Regular mail in Docket No. R90-1). Furthermore, Witness Siwek has
22 not offered any conclusive evidence that the USPS' volumes are wrong nor has he offered
23 any alternative volume proposals.
- 24 5. In my Direct Testimony, I proposed a modest adjustment to the per piece and per pound
25 discounts for BPM mail entered at the DDU. My proposal reflected a passthrough of 50
26 percent of the cost savings calculated by the USPS. My proposed discounts for BPM mail
27 entered at the DDU equal \$0.331 per piece and \$0.044 per pound. As shown in this
28 Rebuttal Testimony, my proposal is revenue neutral with the USPS' proposed aggregate
29 revenues for BPM when the base rate for presorted BPM mail is increased from the USPS'
30 proposed rate of \$0.905 per piece to \$0.910 per piece, an increase of \$0.005 per piece.

^{3/} PRC Docket No. R90-1, Postal Rate and Fee Changes, 1990 ("Docket No. R90-1").

1 **III. WITNESS SIWEK'S CRITIQUE OF USPS' RATES FOR BPM**

2 AAP's Witness Siwek's proposal lowers the USPS' recommended per piece and per pound
3 rates and recommends an increase in the DBMC discount to 19.5 cents per piece with no
4 additional per piece discounts for BPM mail entered at the DSCF or DDU. Witness Siwek's
5 proposal also includes a reduction of the USPS' cost coverage from 117.6 percent to 105 percent.^{4/}
6 A comparison of the USPS' rate proposal and Witness Siwek's proposal can be found in my
7 Exhibit MOAA-RT-2A. In discussing his rate proposal, Witness Siwek feels the PRC should not
8 adopt destination entry discounts for DSCF and DDU at this time pending further analyses by the
9 USPS. His rejection of discounts for mail entered at the DSCF and DDU is based on the
10 destination discounts for Parcel Post mail instituted in Docket No. R90-1. In that proceeding only
11 a DBMC discount was adopted for Parcel Post with the SCF and DDU discounts established later
12 in Docket No. R97-1.^{5/} Witness Siwek raises three (3) other issues regarding the USPS' proposed
13 rate structure for BPM mail:

- 14 1. The destination entry requirements are not finalized yet;
- 15 2. The survey for BPM destination entry volume patterns is statistically flawed; and,
- 16 3. The USPS' proposal reflects a disparate and discriminatory pattern of cost savings
17 passthroughs, favoring DSCF and DDU mailers at the expense of DBMC mailers.

^{4/} In addition to his rate proposal in Attachment - 6 and Attachment - 7, Witness Siwek presents a proposed rate structure that reflects a coverage ratio of 117.6 percent with per piece discounts set at 12.9 cents per piece (Siwek, page 25 and Attachment - 4, Table 2, Tr. 30/14585 and Tr. 30/14614). However, he states that this is not intended to be his final proposed rate structure.

^{5/} PRC Docket No. R97-1, Postal Rate and Fee Changes, 1997 ("Docket No. R97-1").

1 My analysis of Witness Siwek's criticisms of the USPS' rate proposal for BPM mail is
2 discussed under the following topics:

- 3 A. Intended Cost Coverage
- 4 B. Comparison to Parcel Post
- 5 C. Destination Entry Requirements
- 6 D. Volume Projections
- 7 E. Discriminatory Pattern of Passthroughs

8 **A. INTENDED COST COVERAGE**

9 Witness Siwek's reductions in the USPS' recommended Basic piece and pound rates, along
10 with his proposed tripling of the USPS' DBMC discount (from the USPS' proposed 6.2 cents per
11 piece to 19.5 cents per piece), results in a reduction of the cost coverage from the USPS' proposed
12 117.6 percent to 105 percent. The analysis of the appropriate revenue requirement is beyond the
13 scope of this Rebuttal Testimony. However, for purposes of evaluating the various proposals (and
14 presenting my rate proposal) I have used the USPS' revenue target of \$563.9 million (i.e., 117.6
15 percent). Maintaining Witness Siwek's recommended discounts at the USPS' proposed 117.6
16 percent cost coverage increases the USPS' proposed basic per piece rate of \$0.905 per piece to
17 \$0.959 per piece^{6/}. A comparison of Witness Siwek's final proposed rate structure and his
18 proposed discounts with the 117.6 percent cost coverage target is shown in Exhibit MOAA-RT-2B
19 to this testimony.

^{6/} Witness Siwek's AAP-LR-1 (Response to USPS-AAP-T2-3), recreates USPS Witness Kiefer's original BPM workpaper which showed a target revenue of \$563.4 million.

1 **B. COMPARISON TO PARCEL POST**

2 Witness Siwek argues that the PRC “should not adopt additional discounts for DSCF and
3 DDU entry pending further analyses by the Postal Service...”^{7/} Witness Siwek also states that the
4 USPS’ “overall program for multiple BPM discounts [BMC, SCF, DDU] ...is flatly inconsistent
5 with the way in which dropship discounts were first introduced in Parcel Post.”^{8/} Witness Siwek
6 points out that the DBMC discounts were first adopted for Parcel Post in Docket No. R90-1 while
7 DSCF and DDU discounts were not instituted for Parcel Post until Docket No. R97-1. He then
8 recommends that the PRC “follow the pattern that it previously established in Parcel Post.”^{9/}
9 While Witness Siwek is factually correct, his characterization of the implementation schedule for
10 Parcel Post destination entry discounts is misplaced.

11 The USPS in R90-1 supported the proposed DBMC discounts with a cost study.^{10/} In Docket
12 No. R90-1, the USPS limited the proposed discounts to only DBMC entered mail because the
13 USPS had not developed the cost savings for Parcel Post entered at the DSCF or DDU. The PRC
14 in the Docket No. R90-1 decision stated that “parcel post mailers should be afforded the
15 opportunity to lower their postage rate by preparing and tendering their parcels in a manner
16 resulting in lower Postal Service costs.”^{11/} Then, in Docket No. R97-1, the USPS expanded the
17 cost study of worksharing for Parcel Post mail to include destination entry at the DSCF and
18 DDU.^{12/} Thus, the discounts for DSCF and DDU Parcel Post mail were not established until the

^{7/} Tr. 30/14583.

^{8/} Tr. 30/14583.

^{9/} Tr. 30/14583.

^{10/} Docket No. R90-1, Direct Testimony of Nicholas H.C. Acheson, USPS-T-12, pages 18-32.

^{11/} Docket No. R90-1 decision, page V-344 to V-345.

^{12/} Docket No. R97-1 decision, page 477 and pages 490-493.

1 cost studies were submitted to support the proposed discount. In Docket No. R90-1 and Docket
2 No. R97-1 the USPS stated that it wanted to meet the needs of large-volume business mailers and
3 promote mutually beneficial worksharing. The same can be said today for destination entry
4 discounts for BPM mail.

5 The USPS' proposed discounts in Docket No. R2000-1 are supported by a cost study which
6 shows there are large cost differences between BPM mail at the Basic level and mail entered at the
7 BMC, DSCF and DDU. The PRC stated in Docket No. R90-1 that "it is appropriate to encourage
8 mailers of nonmachinables to enter them in a manner which avoids as much handling as
9 possible."^{13/} This logic applies to the establishment of destination entry discounts for DBMC,
10 DSCF and DDU. However, Witness Siwek's proposal does not offer an incentive to enter mail
11 at the DSCF or DDU, while the discounts proposed by the USPS and me provide such an
12 incentive.

13 Witness Siwek's recommendation of waiting to establish additional discounts infers that the
14 institution of destination discounts are foreign to the USPS and PRC. In the Docket No. R90-1
15 proceeding which Witness Siwek relies upon, the USPS also proposed new destination entry
16 discounts for Third Class Bulk Rate Regular Mail ("TCBRR").^{14/} USPS' Witness Acheson
17 developed the cost study for TCBRR mail as well as the cost study for Parcel Post mail. In
18 Witness Acheson's study for TCBRR mail, he developed the cost savings for TCBRR mail entered
19 at the DBMC, DSCF and DDU. The new discounts for all three destination entry levels were

^{13/} Docket No. R90-1 decision, page V-344.

^{14/} This is now categorized as Standard (A) mail.

1 accepted by the PRC.^{15/} The PRC again cited that the discounts for TCBRR mail were set at a level
2 which "provides sufficient incentive to mailers".^{16/}

3 In Docket No. R2000-1, the USPS has supported the BPM discounts with cost savings and,
4 as I stated in my Direct Testimony, adopted a very conservative passthrough policy. Discounts
5 should be offered for all three destination entry levels. However, as shown below the discounts
6 proposed by the USPS will not provide enough incentive to encourage mailers to enter BPM at the
7 DDU and therefore, should be increased.

8 **C. DESTINATION ENTRY REQUIREMENTS**

9 Witness Siwek states that:

10 "the entry requirements that will govern these discounts will not be finalized until
11 after the rate case. Better proof that these destination proposals are premature
12 could scarcely be imagined."^{17/}

13 Witness Siwek's issues regarding the publication of the final requirements is irrelevant to this
14 proceeding. His statement is an extreme oversimplification of the procedures to institute new rules,
15 rates and discounts. Whenever new discounts or other changes to the Domestic Mail Manual
16 ("DMM") are made, the "requirements" are not known until after the regulations are written.
17 Following Witness Siwek's concept to its logical conclusion, changes to the rate structure would
18 never be made. The PRC in the past has had adequate information to approve new discounts prior
19 to the actual completion of the regulations. In Docket No. R90-1, the final requirements to qualify

^{15/} Docket No. R90-1 decision, page V-283-V-285.

^{16/} Docket No. R90-1 decision, page V-284.

^{17/} Tr. 30/14576.

1 for the Parcel Post discounts discussed above were not written until after the decision in that
2 proceeding. When the PRC in Docket No. R90-1 instituted the DBMC discount for Parcel Post,
3 it noted that the PRC “assume[s] the Postal Service will make any necessary changes to its
4 operational manuals to reflect the proposal and its acceptance.”^{18/}

5 **D. VOLUME PROJECTIONS**

6 Witness Siwek’s critique of the flaws in the statistical validity of the volumes is also
7 misplaced. Witness Siwek feels that the survey utilized to develop the volumes receiving the BPM
8 discounts is “fraught with a set of statistical oddities and infirmities that call into question many
9 of its basic results”.^{19/} He goes on to state that because the BPM survey “is a first time effort, the
10 USPS has no track record against which to assess the survey results”.^{20/}

11 As with any newly proposed discount, the initial volumes that will utilize the discounts must
12 be estimated. The PRC has historically accepted the results of the best volume estimates
13 available.^{21/} The relevant issue here is whether or not the cost savings projected by the USPS will
14 cover the discounts. Witness Siwek has not shown that the USPS’ cost savings are misstated nor
15 has he revised the USPS’ volume estimates in his rate proposal. If the volumes are in doubt, this
16 supports a lower passthrough to make sure that the USPS cost savings are covered by the discount.
17 As two-thirds of the estimated pieces receiving the discounts will be entered at the DBMC, this

^{18/} Docket No. R90-1 decision, page V-356.

^{19/} Tr. 30/14578.

^{20/} Tr. 30/14579.

^{21/} For example, see the volume estimates made in establishing the TCBRR destination entry discounts in Docket No. R90-1.

1 adds further support to a lower passthrough of the cost savings for that discount. In summary, the
2 USPS' volumes are the best evidence in this proceeding.

3 **E. DISCRIMINATORY PATTERN OF PASSTHROUGHS**

4 The final issue raised by Witness Siwek relates to the fairness of the USPS' proposed
5 discounts. Witness Siwek argues that "the destination entry discounts that have been proposed by
6 the Postal Service reflect a disparate and discriminatory pattern of cost saving pass-throughs."^{22/}
7 Witness Siwek states that on a percentage basis the passthroughs are "unreasonable" because only
8 16 percent of the cost savings generated by the BPM DBMC mail are realized in rate discounts
9 as compared to a passthrough of 47 percent and 45 percent for DSCF and DDU mail
10 respectively.^{23/}

11 Any passthrough of less than 100% of the cost savings will result in a higher contribution to
12 the USPS' institutional costs, but a lower passthrough percentage of costs does not necessarily
13 mean a higher contribution in actual dollars. Table 1 below shows the cost savings, discounts and
14 contribution per piece for the USPS' proposed discounts.

^{22/} Tr. 30/14584.

^{23/} Tr. 30/14584.

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Table 1
Comparison of Contribution Per Piece--USPS Proposed Discounts

Destination	Per Piece		
	Cost Savings ^{1/}	USPS Discount ^{2/}	Contribution ^{3/}
(1)	(2)	(3)	(4)
1. DBMC	\$0.385	\$0.062	\$0.323
2. DSCF	0.535	0.246	0.289
3. DDU	0.661	0.297	0.364

^{1/} USPS-T-27, Attachment I, Table 3 (revised 04/14/2000) and page 17.
^{2/} USPS-LR-I-325.
^{3/} Column (2) - Column (3).

14 As shown in Table 1 above, DDU per piece contribution equals \$0.364 per piece. The
 15 discount for DDU mail contributes \$0.041 per piece more to institutional costs than DBMC mail
 16 (\$0.364 per piece minus \$0.323 per piece).^{24/} Under Witness Siwek's proposal the contribution
 17 at the DBMC would be reduced to \$0.190 per piece while the contribution at the DDU level
 18 increases to \$0.466 ^{25/} per piece (over 2.5 times the DBMC level of contribution). This is much
 19 more "disparate and discriminatory" than the USPS proposal and provides no incentive for mailers
 20 to enter BPM mail at either the DSCF or the DDU.

^{24/} The contribution per piece at the DDU level is still larger than the contribution at the DBMC level under my proposal.

^{25/} DDU cost savings of \$0.661 per piece - \$0.195 per piece = \$0.466 per piece.

IV. COMPARISON OF RATE PROPOSALS FOR BPM

The rates proposed by the USPS and the volumes for BPM mail were summarized in Witness Kiefer's workpapers and LR-325. In aggregate, the USPS proposal generates \$563.9 million in revenues and fees.^{26/} The USPS' proposed rate structure contained the base rate and DDU discounts as summarized in Table 2 below:^{27/}

Table 2	
Summary of USPS Proposed Base Rate and DDU Discounts	
<u>Item</u>	<u>Amount</u>
(1)	(2)
1. Base Rate for Presorted BPM--Per Piece	\$0.905
2. Destination Entry Discounts for DDU	
a. Per Piece	\$0.297
b. Per Pound	\$0.031
^{1/} Witness Kiefer's workpapers, Library Reference LR-I-325, WP-BPM-28.	

In the USPS' proposal, the base rate for presorted BPM mail equals \$0.905 per piece. The destination entry discounts for DDU under the USPS' proposal equals \$0.297 per piece and \$0.031 per pound. The USPS' proposed discounts reflected a passthrough of the cost savings ranging between 35 percent and 45 percent.^{28/}

^{26/} Witness Kiefer's workpapers, Library Reference LR-I-325, WP-BPM-28.

^{27/} All components of the USPS' proposal are compared to the proposal I presented in Exhibit MOAA-RT-2D.

^{28/} See Table 2 of my Direct Testimony on behalf of MOAA (Tr. 30/14360).

1 In my Direct Testimony, I proposed a modest change to the DDU discount to provide better
 2 incentives for mail to be dropped further into the USPS system. I proposed a passthrough of 50
 3 percent of the cost savings which increased the DDU discount to \$0.331 per piece and \$0.044 per
 4 pound. As recognized by the PRC, incentives should be provided to mailers in order for the
 5 mailer to perform the worksharing. Using a 2.6 pound mail piece as an example,^{29/} Table 3 below
 6 compares the rate savings from entering the mail at the DDU instead of the DBMC as presented
 7 in the USPS' proposal, Witness Siwek's proposal^{30/}, and my proposal.

8 Table 3
 9 Summary of Savings Between
 10 Destination Entry at DBMC and DDU--2.6 Pounds

Item (1)	Proposal		
	USPS (2)	Siwek (3)	MOAA (4)
1. Per Piece Discount			
a. DBMC	\$0.062	\$0.195	\$0.062
b. DDU	<u>0.297</u>	<u>0.195</u>	<u>0.331</u>
c. Difference (L1b - L1a)	\$0.235	\$0.000	0.269
2. Per Pound Discount			
a. DBMC	\$0.004	\$0.009	\$0.004
b. DDU	<u>0.031</u>	<u>0.036</u>	<u>0.044</u>
c. Difference (L2b - L2a)	\$0.027	\$0.027	\$0.040
3. Savings to Enter at DDU Instead of the BMC-- 2.6 Pound Piece [L1c+(L2c x 2.6 pounds)]	\$0.305	\$0.070	\$0.373

^{29/} This is the average weight for BPM mail entered at the DDU.

^{30/} This example relies on the proposed rates shown by Witness Siwek with the coverage ratio at 105 percent.

1 Using a 2.6 pound BPM piece as an example, the USPS proposal would produce a savings
2 to the mailer of 30.5 cents per piece by entering the mail at the DDU instead of the DBMC.
3 Witness Siwek's proposal produces a savings of 7.0 cents per piece. My proposal would provide
4 the mailer with a savings of 37.3 cents per piece by entering mail at the DDU instead of the
5 DBMC.

6 The USPS has 29 DBMC facilities located in various parts of the USPS. In contrast, the
7 USPS has over 25,000 DDU facilities. To provide incentive for the mailer to develop a
8 dropshipping network to such a vast number of DDU facilities, the rate structure must provide
9 substantial rate incentives.

10 In my opinion, the USPS' proposal which provides a discount of 30.5 cents for a 2.6 pound
11 piece may not reflect a sufficiently large enough discount to cover the costs for the mailer to
12 perform the worksharing to deliver the mail to the DDU. Clearly, Witness Siwek's proposal of
13 providing a discount of only a 7.0 cents per piece (Table 3, Line 3) will provide little incentive
14 for any mailer to perform worksharing in order to enter mail at the DDU. Witness Siwek's
15 proposal may well eliminate any mail from switching the point of entry from the DBMC (or SCF)
16 to the DDU. In order to provide incentives and cover costs for entering at the DDU, my discounts
17 should be accepted.

18 I recognize that if my proposal to increase the DDU discount is accepted and the USPS
19 revenue target is set at \$563.9 million, then the base rate per piece must be increased in order for
20 the proposed rates to be revenue neutral. I have utilized Witness Kiefer's spreadsheet to calculate
21 the impact on the base rate. Exhibit MOAA-RT-2C attached to this Rebuttal Testimony

1 reproduces Witness Kiefer's calculations shown on his workpaper WP-BPM-28 with two
 2 adjustments. First, I substituted my proposed discounts of \$0.331 per piece and \$0.044 per pound
 3 for the discounts proposed by Witness Kiefer (Exhibit MOAA-RT-2C, Line "ac"). Next, I
 4 adjusted the USPS' base rate per piece for presorted BPM mail (Exhibit MOAA-RT-2C, Line "h"
 5 to "p") until the aggregate revenues equal the USPS' target revenues of \$563.9 million (Exhibit
 6 MOAA-RT-2C, Line "an"). Table 4 below summarizes the results of my calculation.

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Table 4	
Restated Base Rate Per Piece and Discount for DDU	
<u>Item</u>	<u>Amount</u>
(1)	(2)
1. Base Rate for Presorted BPM-Per Piece	\$0.910
2. Destination Entry Discount for DDU	
a. Per Piece	\$0.331
b. Per Pound	0.044

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Source: Exhibit MOAA-RT-2C.

18 Other than the rates shown in Table 4 above, the USPS' proposed rates remain unchanged.
 19 As shown in Table 4 above, my proposed discounts for DDU mail are revenue neutral with the
 20 USPS' proposal when the base rate equals \$0.910 per piece.

21 Table 5 below summarizes the difference between the USPS' proposal and my restated rates
 22 and discounts.

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Table 5
Comparison of USPS Proposal and MOAA Restatement

<u>Item</u> (1)	<u>USPS Proposal</u> ^{1/} (2)	<u>MOAA Restatement</u> ^{2/} (3)	<u>Difference</u> ^{3/} (4)
1. Base Rate for Presorted BPM-Per Piece	\$0.905	\$0.910	\$0.005
2. Destination Entry Discount for DDU			
a. Per Piece	\$0.297	\$0.331	\$0.034
b. Per Pound	\$0.031	\$0.044	\$0.013

^{1/} Table 2 above.
^{2/} Table 4 above.
^{3/} Column (3) minus Column (2).

13 My rate proposal increases the USPS' proposed base rate by 0.5 cents per piece. My proposal
14 increases the destination discount proposed by the USPS by 3.4 cents per piece and 1.3 cents per
15 pound. All of the other rates proposed by the USPS remain unchanged. A comparison of the
16 USPS' proposed rates with my proposal is shown in Exhibit MOAA-RT-2D to this Rebuttal
17 Testimony.

**Comparison of Proposed Rates for Bound Printed Matter --
USPS' Witness Kiefer v. AAP's Witness Siwek (105%)**

<u>Item</u> (1)	<u>Per Piece</u> <u>Rate</u> (2)	<u>Per Pound Rate</u>						
		<u>Zones 1&2</u> (3)	<u>Zone 3</u> (4)	<u>Zone 4</u> (5)	<u>Zone 5</u> (6)	<u>Zone 6</u> (7)	<u>Zone 7</u> (8)	<u>Zone 8</u> (9)
USPS Proposal 1/								
1. Single	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
2. Basic Presort								
a. Origin Entry	0.905	0.064	0.092	0.138	0.209	0.286	0.376	0.450
b. DBMC	0.843	0.060	0.086	0.132	0.201			
c. DSCF	0.659	0.035						
d. DDU	0.608	0.033						
3. Carrier Route Discount	0.077							
4. Barcode Discount	0.030							
As Proposed by Siwek Based on 105% Cost Coverage 2/								
5. Single	\$1.42	\$0.07	\$0.09	\$0.14	\$0.20	\$0.27	\$0.35	\$0.41
6. Basic Presort								
a. Origin Entry	0.865	0.060	0.085	0.129	0.197	0.272	0.359	0.429
b. DBMC	0.670	0.051	0.070	0.112	0.177			
c. DSCF	0.670	0.026						
d. DDU	0.670	0.024						
7. Carrier Route Discount	0.077							
8. Barcode Discount	0.030							
Differences (Siwek less USPS)								
9. Single	-\$0.160	-\$0.010	-\$0.020	-\$0.020	-\$0.030	-\$0.030	-\$0.040	-\$0.050
10. Basic Presort								
a. Origin Entry	-0.040	-0.004	-0.007	-0.009	-0.012	-0.014	-0.017	-0.021
b. DBMC	-0.173	-0.009	-0.016	-0.020	-0.024			
c. DSCF	0.011	-0.009						
d. DDU	0.062	-0.009						
11. Carrier Route Discount	0.000							
12. Barcode Discount	0.000							

1/ USPS-T-37, Table 16.

2/ AAP-T-2, Attachment No.6, page 1.

Note: Differences where Siwek proposes increases to USPS' proposal are in bold.

**Comparison of Proposed Rates for Bound Printed Matter --
USPS' Witness Kiefer v. AAP's Witness Siwek (117.6%)
(USPS Target Revenues and 19.5 Cents Per Piece Discount)**

<u>Item</u> (1)	<u>Per Piece</u> <u>Rate</u> (2)	<u>Per Pound Rate</u>						
		<u>Zones 1&2</u> (3)	<u>Zone 3</u> (4)	<u>Zone 4</u> (5)	<u>Zone 5</u> (6)	<u>Zone 6</u> (7)	<u>Zone 7</u> (8)	<u>Zone 8</u> (9)
USPS Proposal 1/								
1. Single	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
2. Basic Presort								
a. Origin Entry	0.905	0.064	0.092	0.138	0.209	0.286	0.376	0.450
b. DBMC	0.843	0.060	0.086	0.132	0.201			
c. DSCF	0.659	0.035						
d. DDU	0.608	0.033						
3. Carrier Route Discount	0.077							
4. Barcode Discount	0.030							
Based on Siwek's Proposed Discounts and 117.6% Cost Coverage 2/								
5. Single	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
6. Basic Presort								
a. Origin Entry	0.959	0.064	0.092	0.138	0.209	0.286	0.376	0.450
b. DBMC	0.764	0.055	0.077	0.121	0.189			
c. DSCF	0.764	0.030						
d. DDU	0.764	0.028						
7. Carrier Route Discount	0.077							
8. Barcode Discount	0.030							
Differences (Siwek less USPS)								
9. Single	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
10. Basic Presort								
a. Origin Entry	0.054	0.000	0.000	0.000	0.000	0.000	0.000	0.000
b. DBMC	-0.079	-0.005	-0.009	-0.011	-0.012			
c. DSCF	0.105	-0.005						
d. DDU	0.156	-0.005						
11. Carrier Route Discount	0.000							
12. Barcode Discount	0.000							

1/ USPS-T-37, Table 16.

2/ AAP-T-2, Attachment-6, Page 1. Basic Presort rates increased to account for lost revenues from decreased cost coverage.

Note: Differences where Siwek proposes increases to USPS' proposal are in bold.

Calculation of TYAR Revenues
Based on MOAA's Proposed Rates and USPS Target Revenues

Single Piece Bound Printed Matter

	Per Piece Component ⁽ⁱ⁾			Per Pound Component ⁽ⁱ⁾			Preliminary Total Revenue ⁽ⁱ⁾
	Pieces ^(A)	Per Piece Rate ^(B)	Revenue ^(C)	Pounds ^(D)	Per Pound Rate ^(E)	Revenue ^(F)	
Zones 1&2	15,009,843	\$1.58	\$23,715,551	33,510,230	\$0.08	\$2,880,818	\$26,396,370
Zone 3	2,612,976	\$1.58	\$4,128,502	6,034,298	\$0.11	\$663,772	\$4,792,273
Zone 4	4,187,006	\$1.58	\$6,631,270	9,322,227	\$0.16	\$1,491,556	\$8,122,826
Zone 5	4,106,221	\$1.58	\$6,487,829	10,135,257	\$0.23	\$2,331,109	\$8,818,938
Zone 6	1,827,064	\$1.58	\$3,044,761	4,589,316	\$0.30	\$1,376,795	\$4,421,556
Zone 7	1,213,216	\$1.58	\$1,918,881	3,073,426	\$0.39	\$1,175,236	\$3,092,117
Zone 8	1,682,498	\$1.58	\$2,658,347	4,021,856	\$0.46	\$1,850,054	\$4,508,401

Presort Bound Printed Matter

	Per Piece Component ⁽ⁱ⁾			Per Pound Component ⁽ⁱ⁾			Preliminary Total Revenue ⁽ⁱ⁾
	Pieces ^(A)	Per Piece Rate ^(B)	Revenue ^(C)	Pounds ^(D)	Per Pound Rate ^(E)	Revenue ^(F)	
Zones 1&2	317,818,921	\$0.910	\$289,169,162	815,205,469	\$0.064	\$52,173,150	\$341,342,312
Zone 3	65,536,390	\$0.910	\$59,628,618	164,276,451	\$0.092	\$15,113,434	\$74,742,051
Zone 4	44,374,361	\$0.910	\$40,374,239	105,129,653	\$0.138	\$14,507,892	\$54,882,131
Zone 5	31,838,742	\$0.910	\$28,888,641	65,684,459	\$0.208	\$13,728,052	\$42,616,693
Zone 6	12,616,180	\$0.910	\$11,478,904	24,084,460	\$0.285	\$6,862,439	\$18,341,340
Zone 7	9,694,011	\$0.910	\$8,738,298	18,673,784	\$0.376	\$7,021,343	\$15,759,607
Zone 8	12,205,453	\$0.910	\$11,105,176	23,863,897	\$0.450	\$10,738,754	\$21,843,929

Revenue Discounts

	Per Piece Component ⁽ⁱ⁾			Per Pound Component ⁽ⁱ⁾			Preliminary Total Discount ⁽ⁱ⁾
	Pieces ^(A)	Per Piece Discount ^(B)	Discount ^(C)	Pounds ^(D)	Per Pound Discount ^(E)	Discount ^(F)	
Carrier Route							
Zones 1&2	98,035,875	\$0.077	\$7,548,762	---	---	---	\$7,548,762
Zone 3	4,834,388	\$0.077	\$372,248	---	---	---	\$372,248
Zone 4	2,569,876	\$0.077	\$197,880	---	---	---	\$197,880
Zone 5	1,480,320	\$0.077	\$113,985	---	---	---	\$113,985
Zone 6	563,054	\$0.077	\$43,355	---	---	---	\$43,355
Zone 7	451,926	\$0.077	\$34,791	---	---	---	\$34,791
Zone 8	342,749	\$0.077	\$26,392	---	---	---	\$26,392
DBMC							
Zones 1&2	169,676,243	\$0.062	\$10,467,927	432,654,531	\$0.004	\$1,730,618	\$12,198,545
Zone 3	28,882,350	\$0.062	\$1,790,706	72,397,793	\$0.006	\$434,387	\$2,225,092
Zone 4	8,435,442	\$0.062	\$522,997	19,984,854	\$0.006	\$119,909	\$642,907
Zone 5	294,514	\$0.062	\$12,880	421,919	\$0.008	\$3,375	\$16,095
DSCF	79,039,048	\$0.246	\$19,443,606	202,735,141	\$0.029	\$5,879,319	\$25,322,925
DDU	35,587,571	\$0.331	\$11,772,866	91,230,614	\$0.044	\$4,014,156	\$16,787,022
Barcoding	107,510,176	\$0.030	\$3,225,305	---	---	---	\$3,225,305

Revenue Summary

	Per Piece Component ⁽ⁱⁱ⁾	Per Pound Component ⁽ⁱⁱ⁾	Total ⁽ⁱⁱ⁾
Single Piece Revenue Before Discounts Adjusted ^(a)	\$48,583,141	\$11,569,340	\$60,152,482
Presort Revenue Before Discounts Adjusted ^(a)	\$449,462,997	\$120,165,060	\$569,628,057
Total Revenue Discounts ^(a)	-\$55,563,500	-\$12,181,764	-\$67,745,264
Net Revenue Before Fees ^(a)	\$442,482,638	\$119,552,636	\$562,035,274
Total Fees ^(a)			\$698,000
Net Revenue With Fees ^(a)			\$563,337,274

Source: USPS-LR-926, Kiefer, WP-BPM-28 adjusted for MOAA's proposed discounts and restated Base Rate per piece

**Comparison of Proposed Rates for Bound Printed Matter --
USPS' Witness Kiefer v. MOAA's Restatement (117.6%)**

<u>Item</u> (1)	<u>Per Piece</u> Rate (2)	<u>Per Pound Rate</u>						
	<u>Zones 1&2</u> (3)	<u>Zone 3</u> (4)	<u>Zone 4</u> (5)	<u>Zone 5</u> (6)	<u>Zone 6</u> (7)	<u>Zone 7</u> (8)	<u>Zone 8</u> (9)	
USPS Proposal 1/								
1. Single	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
2. Basic Presort								
a. Origin Entry	0.905	0.064	0.092	0.138	0.209	0.286	0.376	0.450
b. DBMC	0.843	0.060	0.086	0.132	0.201			
c. DSCF	0.659	0.035						
d. DDU	0.608	0.033						
3. Carrier Route Discount	0.077							
4. Barcode Discount	0.030							
As Proposed by MOAA Based on 117.6% Cost Coverage 2/								
5. Single	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
6. Basic Presort								
a. Origin Entry	0.910	0.064	0.092	0.138	0.209	0.286	0.376	0.450
b. DBMC	0.848	0.060	0.086	0.132	0.201			
c. DSCF	0.664	0.035						
d. DDU	0.579	0.020						
7. Carrier Route Discount	0.077							
8. Barcode Discount	0.030							
Differences (MOAA less USPS)								
9. Single	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
10. Basic Presort								
a. Origin Entry	0.005	0.000	0.000	0.000	0.000	0.000	0.000	0.000
b. DBMC	0.005	0.000	0.000	0.000	0.000			
c. DSCF	0.005	0.000						
d. DDU	-0.029	-0.013						
11. Carrier Route Discount	0.000							
12. Barcode Discount	0.000							

1/ USPS-T-37, Table 16.

2/ MOAA-T-1C.

Note: Differences where MOAA proposes increases to USPS' proposal are in bold.