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

**Exhibit MMA-ST-1**

**Postal Rate and Fee Changes**

**Docket No. R2000-1**

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

**August 23, 2000**

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**Supplemental Testimony  
of Richard E. Bentley  
On Behalf of Major Mailers Association**

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**I. INTRODUCTION**

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**A. Statement of Qualifications**

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I have testified before the Postal Rate Commission in every major rate and classification proceeding since Docket No. R77-1. A statement of my qualifications has previously been filed as part of my direct testimony. Please see Exhibit MMA-T-1.

**B. Purpose and Summary of Testimony**

On August 11, 2000 the Postal Service was directed to update Library References USPS-LR-I-137 and UPSP-LR-L-147 using FY 99 cost and volume data as the base year. Using those two documents I have been able to update MMA-LR-1, which provides my original measure of First-Class worksharing cost savings by presort level.

I also discuss the importance of additional workshare mail preparation activities that came to my attention after my original testimony was filed only as a result of interrogatories the Postal Service directed to MMA witness Sharon Harrison. The Postal Service claims that the significant cost differences between First-Class Automation letters and its Bulk Metered Mail (BMM) benchmark for the mail preparation and platform cost pools are unrelated to worksharing. Ms. Harrison's descriptions of the mail preparation activities performed by MMA companies convincingly refutes that claim. Moreover, the Postal Service has

1 been systematically shifting to workshare mailers significant cost burdens  
2 associated with additional worksharing activities once performed by Postal  
3 Service personnel. The Service has transferred the responsibilities for these  
4 activities to workshare mailers in the guise of workshare discount requirements.

5         USPS witness Miller apparently was not aware of these additional  
6 workshare activities that mailers perform; in any event he recognized only cost  
7 differences associated with presorting and prebarcoding in his testimony, and did  
8 not incorporate any other workshare cost savings in his analysis. As a result, he  
9 has understated workshare cost savings by failing to (1) include the mail  
10 preparation and platform cost pools in his analysis, and (2) account for mail  
11 preparation activities that the Postal Service has transferred to mailers. The  
12 latter cost sparing activities do not show up in any measurement of workshare  
13 cost savings on the record in this proceeding, but definitely should be  
14 incorporated into the determination of workshare discounts in the next omnibus  
15 rate case.

16         The updated cost analysis indicates that workshare cost savings are even  
17 higher than my original analysis projected. Although I do not change my specific  
18 rate recommendations, I urge the Commission to increase workshare discounts  
19 even more, if possible, and to re-define workshare savings to include activities  
20 that workshare mailers routinely perform but the Postal Service excludes by  
21 design.

22

1     **II.     Update of MMA’s First-Class Workshare Cost Savings**

2             Library Reference MMA-LR-2 updates the cost analysis used to derive  
3 workshare costs savings that was originally presented as MMA-LR-1. The  
4 methodology for the update is exactly the same and simply incorporates updated  
5 base year and test year volume variable cost pools, volumes, productivities,  
6 wage rates, delivery costs and piggyback factors. These costs were derived  
7 using the Commission-approved methodology for attributing costs, which  
8 maintains, generally, that labor costs vary 100% with changes in volume. A  
9 summary of the results is provided in Table 1. In that table, the subtitle  
10 “Worksharing-Related Unit Mail Processing Cost Savings” refers to mail  
11 operations, and the subtitle “Potential Total Worksharing Unit Savings” refers to  
12 mail operations and related cost savings associated with workshare mailers’  
13 compliance with the Postal Service’s move update requirements (.87 cents) and  
14 mandatory prebarcoding of any included reply mail envelopes (.47 cents), and  
15 averted window service costs (1.49 cents).

16             As shown in Table 1, the derived workshare cost savings updated to  
17 reflect FY 99 billing determinants have increased compared to my original  
18 estimates. These increased cost savings provide further support for MMA’s  
19 originally recommended First-Class Automation discounts, and strongly suggest  
20 that even larger discounts — particularly for Automation Basic -- should be  
21 recommended by the Commission.

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**Table 1**  
**Comparison of Original and Updated Derived Workshare Unit Cost Savings**  
**(Cents)**

Rate Category Benchmark	Original Analysis		Updated Analysis	
	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings	Worksharing-Related Unit Mail Processing Cost Savings	Potential Total Worksharing Unit Savings
Auto Basic Presort Letters Meter Mail Letters	6.91	9.71	7.21	10.04
Auto 3-Digit Presort Letters Auto Basic Letters	1.52	4.32	1.40	4.23
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.87	4.68	1.73	4.56
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.47	3.28	0.90	3.72

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Table 2 below shows MMA's originally proposed Automation discounts  
and computes the percentage of workshare cost savings that can be expected to  
be passed through to workshare mailers.

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Table 2  
Comparison of MMA Proposed First-Class Workshare Discounts  
With the Derived Unit Cost Savings  
(Cents)

Rate Category Benchmark	MMA Proposed Discount	Worksharing-Related Unit Mail Processing Cost Savings	Worksharing-Related Mail Processing % Passthrough	Potential Total Unit Worksharing Cost Savings	Potential Total Worksharing % Passthrough
Auto Basic Presort Letters Meter Mail Letters	6.2	7.21	86%	10.04	62%
Auto 3-Digit Presort Letters Auto Basic Letters	1.2	1.40	85%	4.23	28%
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.8	1.73	104%	4.56	39%
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.5	0.90	56%	3.72	13%

5  
6

7 **III. Additional Mail Preparation Cost Savings Not Previously Measured**

8 In response to Interrogatories USPS/MMA-T2-2, 5(a) and (b), MMA  
9 witness Harrison and I discuss the First-Class workshare mail preparation  
10 regulations as they currently exist and are administered. See TR 26/12240-41,  
11 12246-12250, 12370-72. There, we indicate that in order to qualify for First-  
12 Class automation discounts, workshare mailers must comply with a vast array of  
13 prerequisite requirements with respect to the mailing piece itself, and with  
14 respect to preparing the letters prior to the time they are deposited with the  
15 Postal Service. All of the costs associated with such activities are borne by  
16 workshare mailers. While the Postal Service's analysis indirectly considers cost

1 savings that result from mail piece design activities, it totally disregards cost  
2 savings resulting from mail preparation activities. The reason for this is simple:  
3 USPS witness Miller's derivation of workshare costs savings does not consider  
4 mail preparation or platform activities to be workshare-related.

5 My derived workshare cost savings, even as updated, include only a  
6 portion of the total cost savings. See TR 26/12251-52. Specifically, my analysis  
7 includes mail preparation and platform cost savings totaling \$462 million,  
8 equivalent to more than 1.0 cent per piece, that USPS witness Miller's analysis  
9 excluded. See Exhibit MMA-ST-1A.

10 However, not all of the mail preparation cost savings have been properly  
11 isolated or analyzed by the Postal Service. I am referring to cost savings that the  
12 Postal Service will realize by "requiring" workshare mailers to perform mail  
13 preparation tasks that postal workers performed in the Base Year but no will  
14 longer perform by the Test Year.<sup>1</sup> To the extent such transfers of cost  
15 responsibility for mail preparation activities are not captured by the Postal  
16 Service's roll-forward model, postal costs for workshare letters will be overstated  
17 and workshare cost savings will be understated. I recommend that the  
18 Commission direct the Postal Service to measure the cost impact of workshare  
19 mailers' compliance with qualifying regulations, and to include such savings as  
20 part of its derived cost savings in the next omnibus rate proceeding.

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<sup>1</sup> In response to Interrogatory USPS/MMA-T2-5(b) I stated that, "MMA mailers are continually negotiating with local postal officials, who keep on placing (and shifting) more cost burdens upon them." Two examples of these activities are attaching ACT Tags and D&R labels to trays. See TR 26/12379-80. Transferring the costs for such activities from the Postal Service to mailers will not show up as part of workshare cost savings in either Mr. Miller's analysis or my analysis.

1           **A. Mail Preparation Requirements Impact Platform Operation Costs**

2           Section 221.23 of the Domestic Mail Classification Schedule states that  
3 First-Class presorted mail must meet “the letter machine-ability and other  
4 preparation requirements specified by the Postal Service.” Presumably the  
5 Postal Service establishes these mail preparation requirements to ensure that  
6 First-Class presorted letters are processed smoothly and efficiently by  
7 automation equipment, and to facilitate the movement of mail within and between  
8 postal facilities. Cost savings resulting from the former are measured by cost  
9 pools that reflect individual piece handling operations. However, cost savings  
10 resulting from the latter mail preparation requirements, which directly impact  
11 platform operations, were totally removed from consideration by USPS witness  
12 Miller who unilaterally declared that platform operation costs were  
13 nonworksharing (fixed) costs. His conclusion that platform cost differences,  
14 measured between his BMM benchmark and presorted mail, should be excluded  
15 from the derivation of workshare cost savings was based simply upon statements  
16 made by former USPS witnesses in Docket No. R97-1 who, unlike Mr. Miller, did  
17 include platform operation costs savings in their analyses of workshare-related  
18 cost savings.<sup>2</sup>

19           By his own admission, USPS witness Miller does not know the extent to  
20 which workshare mailers sleeve, band, label, stretch-wrap, sort and palletize

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<sup>2</sup> See TR 7/3145. Mr. Miller disregarded the testimony of USPS witness Smith in Docket No. MC95-1. As reported by the Commission, “Smith concluded that these non-model costs [including platform handling] are, in fact, presort related and that many of these costs would probably be proportionate to model costs”. See Docket No. MC95-1 at IV-44 and IV-31.

1 trays, or the extent to which workshare mailers label, sort and pack postal trucks  
2 with pallets. At TR 7/3149 he conceded that,

3 I am not really an expert on presort mailers so I wouldn't  
4 know the answer to questions in terms of what they do  
5 prior to entering their mail at a postal facility.  
6

7 That determination alone caused USPS witness Miller to ignore more than  
8 \$250 million per year of annual cost savings associated with platform operations.  
9 See Exhibit MMA-ST-1A. The Commission should not ignore or disallow such  
10 cost-savings activities based on the unsupported assertions of a Postal Service  
11 witness who is not familiar with the manner in which workshare mailers prepare  
12 and present their mail.

13 **B. Mail Preparation Requirements Impact Mail Preparation Costs**

14 Mr. Miller's unfamiliarity with workshare mail preparation activities  
15 also caused him to erroneously accept, without further study, Bulk Metered  
16 Mail (BMM) as the benchmark from which to measure workshare cost  
17 savings for Automation Basic letters. Mr. Miller simply assumed that the  
18 cost to process BMM in the mail preparation cost pool (1CANCMMP) was  
19 zero. He justified this theoretical adjustment because he assumed that  
20 BMM and First-Class workshare letters were entered at post offices in the  
21 same manner, and that each would "bypass the cancellation and metered  
22 mail preparation operations."<sup>3</sup> See TR 7/3095.

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<sup>3</sup> Ultimately, Mr. Miller's assumption that the 1CANCMMP cost pool would be zero for BMM is meaningless. It has no bearing whatsoever on his derived workshare cost savings since he made a second assumption, also lacking support, that mail preparation costs are not impacted by worksharing operations. Thus, the cost difference between workshare letters and BMM for mail preparation operations have been removed from Mr. Miller's derivation of workshare cost savings in the same manner that he eliminated platform cost savings.

1           Mr. Miller's assumption that BMM letters (if they exist at all) and  
2 workshare letters are presented to the Postal Service in the same manner  
3 is baseless. His perception that BMM mailers will voluntarily pack and  
4 neatly face their BMM letters into trays and deposit them at local post  
5 offices was unsupported. Nevertheless, even assuming he was correct, it  
6 is simply inconceivable that BMM mailers would prepare their mail in the  
7 same manner and to the same extent as workshare mailers routinely do.  
8 No Postal Service witness has ever claimed that BMM trays are sleeved; or  
9 that they are they banded; or that they are labeled and sorted onto pallets;  
10 or that the pallets are labeled, stretch-wrapped, sorted and packed into  
11 postal service trucks so that they can be transported directly to  
12 intermediate or destination offices. Nor has any Postal Service witness  
13 claimed that BMM mailers attach Air Contract Transportation (ACT) tags or  
14 Destination & Routing (D&N) labels to trays of BMM letters.

15           It is also inconceivable that BMM mailers (if any do exist) enter  
16 letters in the quantities that large presort mailers like the MMA companies  
17 and others do on a daily basis. As Ms. Harrison stated “[b]ecause of these  
18 extra mail preparation functions that SBC and other MMA mailers are  
19 *required to perform*, cost savings that accrue to the Postal Service are  
20 much greater for mailings of say 50,000 pieces, than for smaller mailings  
21 of, say, 500 pieces.” See TR 26/12256.

22           In sum, there simply is no factual or logical basis for assuming, as  
23 USPS witness Miller did, that there are no material mail preparation cost

1 differences between Automation letters and any reasonable benchmark  
2 mail pieces. As shown in Exhibit MMA-ST-1A, Mr. Miller's assumption  
3 caused him to disregard over \$200 million in annual workshare cost  
4 savings.

5

6 **C. Mail Preparation Requirements are Discriminatory**

7 The Postal Service has been given a significant amount of flexibility to  
8 enforce workshare regulations. Unfortunately, this has led to non-uniform mail  
9 preparation "requirements" that vary among local post offices and can lead to  
10 discrimination against similarly situated workshare mailers. For example, some  
11 workshare mailers are "required" by their local postal officials to present their  
12 trays stretch-wrapped on pallets, whereas other mailers may be allowed by  
13 different postal officials to use rolling cages. Some postal officials provide  
14 workshare mailers with requisite stretch-wrap material, while others require  
15 workshare mailers to provide and pay for such supplies. Some mailers must  
16 ACT tag their trays while others are not required to do so.

17 The disparate manner in which the mail preparation requirements are  
18 administered is a long-range problem that needs to be resolved. Inconsistent  
19 application of unwritten "requirements" by Postal Service personnel discriminates  
20 against workshare mailers without cause. Accordingly, I recommend that the  
21 Commission require the Postal Service establish officially recognized written  
22 procedures and requirements for preparing workshare mail. Such a document  
23 would not be unlike the Domestic Mail Classification Schedule that was

1 introduced as part of the settlement package among parties after Docket No.  
2 MC73-1. Moreover, establishment of such uniform, written procedures would  
3 allow both workshare mailers and local postal officials to work together within a  
4 fair, consistent framework, doing away with over-zealous and arbitrary  
5 enforcement of requirements that now is apparently quite common.

6 **IV. CONCLUSION**

7 The change in base year from FY 98 to FY 99 does not materially alter the  
8 relationship between derived workshare cost savings and MMA's proposed First-  
9 Class workshare discounts. By any reasonable measure, MMA's proposals for  
10 modest increases in the current workshare discounts are dwarfed by the relevant  
11 cost savings, as Table 2 demonstrates.

12 The importance of this case cannot be overstated. The Commission must  
13 send a strong signal to both the Postal Service and mailers to strengthen their  
14 bond. After all, they need each other. The Postal Service's shortsighted position  
15 of severely limiting the very definition of workshare activities and understating  
16 workshare savings in its analyses must be rejected.

17 I urge the Commission to provide workshare mailers with the necessary  
18 financial incentives to stay with the program. The Commission should set the  
19 record straight once and for all by including mail preparation and platform cost  
20 savings as part of the workshare discount determination. It should expand the  
21 definition of workshare cost savings to include additional cost savings pertaining  
22 to move updates, inclusion of prebarcoded reply envelopes, and avoided window  
23 service costs that the Postal Service obviously enjoys but does not consider to

1 be workshare-related. The Commission should increase workshare discounts to  
2 the extent possible under the newly updated costs and revenues, and within the  
3 guideline of the Postal Service's breakeven requirement.

4 Finally, the Commission should require that the Postal Service establish  
5 official eligibility standards for First-Class workshare mailers that list all the  
6 requirements and regulations in one, complete schedule.

7

## **EXHIBIT MMA-ST-1A**

**Derivation of Updated Potential  
First-Class Workshare Annual Test Year  
Cost Savings Ignored By USPS Witness  
Miller's Assumptions That Platform  
And Mail Preparation Cost Pools  
Are Unrelated to Worksharing**

**Derivation of Potential Annual Updated Test Year Cost Savings Ignored By USPS Witness Miller's Assumptions That Platform and Mail Preparation Cost Pools Are Unrelated to Worksharing (Cents)**

First Class Rate Category	(1) USPS Method Unit Cost			(2) PRC Method Unit Cost			(3)	(4)	(5)	(6)
	1PLATFRM	1CANCMMP	Total	1PLATFRM	1CANCMMP	Total				
			(1) + (2)				(4) + (5)			
BMM Benchmark	0.760 [1]	0.310 [1]	1.070	0.893 [3]	0.517 [3]	1.410				
Automation Letters	0.277 [1]	0.021 [1]	0.299	0.304 [3]	0.055 [3]	0.359				
Automation Unit Cost Savings	0.482 [2]	0.288 [2]	0.771	0.589 [2]	0.462 [2]	1.051				
Automation TY Volume (000) [4]			42,491,654			42,491,654				
Carrier Route Letters	0.016 [1]	0.144 [1]	0.161	0.391 [3]	0.039 [3]					
Carrier Route Unit Cost Savings	0.743 [5]	0.166 [5]	0.909	0.502 [5]	0.478 [5]					
Carrier Route TY Volume (000) [4]			1,544,810			1,544,810				
Annual TY Potential Savings (\$000)[6]	216,481	125,142	341,622	258,047	203,487	461,534				

- [1] USPS LR-I-464, File Sp99us01, Letters (4) spreadsheet
- [2] BMM Benchmark - Automation Letters
- [3] USPS LR-I-466, File Sp99pr01, Letters (4) spreadsheet
- [4] Exhibit MMA-1C
- [5] BMM Benchmark - Carrier Route Letters
- [6] Auto Cost Savings x .01 x Auto Volume + Car Rt Cost Savings x .01 x Car Rt Volume