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

**POSTAL RATE AND FEE CHANGES**

**Docket No. R2000-1**

**Answer Of Major Mailers Association  
In Opposition To  
Postal Service Motion To Strike**

Major Mailers Association ("MMA") hereby submits the following answer in opposition to the Postal Service's August 25, 2000 motion to strike portions of the supplemental testimony of MMA witness Richard E. Bentley and Exhibit MMA-ST-1A. The Postal Service's motion to strike should be denied. It is based upon (1) an overly narrow, erroneous view of MMA's rights to update its case, (2) transparently disingenuous appeals to shortness of time,<sup>1</sup> and (3) a misreading of the relevant orders.

By Order No. 1294, issued May 26, 2000, the Commission directed the Postal Service to update its request for rate and fee changes to incorporate actual data based upon the FY1999 audited Cost And Revenue Analysis ("CRA") Report. In Order No. 1294, the Commission explained why it felt the updated information was necessary and how accomplishing the update could be balanced with other parties' due process rights:<sup>2</sup>

[The Commission] must identify and analyze the most reliable evidence so that it can accurately estimate the Postal Service's revenue needs and develop the most fair rates to generate those revenues. Equally important, it must also accord all interested persons an opportunity to fully and fairly participate in the ratemaking process.

Order No. 1294 at 2-3. . On May 26, the Presiding Officer issued Ruling R2000-1/71

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<sup>1</sup> All parties are adversely affected by the existing time constraints. Indeed, as discussed below, last minute changes by the Postal Service in the library references upon which MMA witness Bentley has relied apparently have rendered the portion of his supplemental testimony the Postal Service does not object to outdated on the very eve of his appearance before the Commission.

<sup>2</sup> On May 26, the Presiding Officer issued Ruling R2000-1/71 ("POR 71"), which modified the procedural schedule to accommodate the changes in the Postal Service's presentation and possible adjustments to the presentations of other participants.

("POR 71"), which modified the procedural schedule to accommodate the changes in the Postal Service's presentation and possible adjustments to the presentations of other participants.

Together, Order No. 1294 and POR 71 gave the Postal Service great latitude in the nature and type of changes that it could make in its originally filed case. In addition to what was described as the "basic update," the Postal Service was permitted

- reexamine all cost change factors for 2000 and 2001;
- develop "additional improvements" to its test year forecast after the basic update has been provided;
- "adjust other aspects of its case," including cost coverages and rate design.
- "develop additional adjustments to its test year projections, for example, to incorporate more recent inflation forecasts or program estimates."<sup>3</sup>

On June 9, 2000 MMA requested reconsideration and clarification of Order No. 1294 and POR 71. Although MMA did not oppose the directive that the Postal Service provide a "basic update" of its case-in-chief based on FY1999 CRA data, MMA did caution against entertaining any further "improvements" or modifications of the Postal Service's case. As MMA explained:

[G]oing beyond a basic update of the Postal Service's original presentation is likely to create an unnecessary "moving target" for the Service and other participants and engender additional controversy over which "improvements" are appropriate and which are not. Such an exercise doubtless will overtax the participants' already limited resources. Moreover, there is a distinct possibility that the resultant confusion will hinder, rather than enhance, the cause of reasoned decisionmaking.<sup>4</sup>

MMA June 9 Answer at 2. Similarly, ABA&NAPM requested that the Commission withdraw Order No. 1294 or place reasonable limitations on the nature and extent of any USPS updates. As ABA&NAPM stated:

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<sup>3</sup> See Order No. 1294 at 5; POR 71 at 1.

<sup>4</sup> See Answer Of Major Mailers Association To Postal Service Motion For Reconsideration Of Order No. 1294 And Request Of Major Mailers Association For Clarification Or Reconsideration Of Order No. 1294 And POR 71, dated June 9, 2000 at 2.

Frankly, USPS cost change factors are perceived by ABA&NAPM as an area ripe with opportunity for mischief and manipulation of cost information. This is particularly true due to the fact that Order #1294 and related Ruling No. R2000-1/71 provide the USPS with the unprecedented opportunity to "improve" their case in chief with this second round of filings, after they have had the benefit of review of the cases in chief of intervenors and OCA which were filed way back on May 22, 2000.<sup>5</sup>

Finally, MMA explicitly requested clarification that the Postal Service was obligated to update specific information that MMA used and relied upon in the preparation of its case.

Subsequent developments confirm that the concerns expressed by MMA and ABA&NAPM were well founded. The Postal Service has used Order No. 1294 and POR 71 to accomplish wholesale revisions to central elements of its original rate increase filing. Chief among these is the Service's abandonment, without any real explanation, of its long standing policy of determining anticipated future wage increases based on the ECI minus 1 method. See TR35/16796-16800. Nevertheless, such change did not prompt rejection of this USPS "update." Instead, by letter dated August 9, 2000, the Presiding Officer simply requested an explanation from Postmaster General Henderson.<sup>6</sup>

Most recently, the Postal Service is in the process of revising the very library references upon which Mr. Bentley relied to develop his supplemental testimony. When the Postal Service's original update was filed and in the August 18 updates provided pursuant to POR 116, the Postal Service changed the IOCS method used to determine Automation and Nonautomation costs for FY 1999. Now the Postal Service has changed its mind once again and proposes to revert to the method used for FY 1998.<sup>7</sup> As a result, as of this date MMA knows that the Postal

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5 See American Bankers Association And National Association Of PresortMailers Response To Usps Motion For Reconsideration Of Order No.1294, dated June 9, 2000, at 4.

6 As discussed by ABA&NAPM witness Clifton, "across the board" wage and fuel increases should increase First-Class Mail and Standard Mail (A) in a similar manner. Yet, without any explanation, the Postal Service's updated cost presentation shows significant cost increases for First-Class that Standard Mail (A) somehow avoids. See ABA&NAPM-ST1 at 7-8.

7 See Supplemental Response Of The United States Postal Service To Presiding Officer's Ruling No. R2000-1/116, dated August 25,2000.

Service now considers the cost information upon which Mr. Bentley based Tables 1 and 2 of his supplemental testimony to be incorrect and is in the process of filing yet another “update.”

Such methodological flip flops by the Postal Service underscore MMA’s concerns about the moving target problem. They also serve to highlight the fact that the Commission and the Presiding Officer have given the Postal Service great latitude in making changes in the methodologies that underlie its updates of cost and revenue projections. Fairness requires that similar accommodations be provided to other parties who must struggle through the update process, ever reacting to the Postal Service’s latest changes.

Moreover, the Postal Service’s update was done in a highly selective fashion.<sup>8</sup> Among other things, the USPS update filings excluded the information identified by MMA in its June 9 Answer. It was not until MMA secured an admission from the Postal Service that it had no intention of updating the materials requested by MMA and filed its August 7 Motion To Compel, that the Presiding Officer finally directed the Postal Service to provide the basic information MMA had requested two months earlier.

Perhaps the Service would have liked MMA to respond to Order 1294 without the benefit of its requested updated library references. However, no response could be possible, nor was it possible, without knowing the results of updating MMA’s worksharing cost savings analyses. For this reason, MMA’s response to Order 1294 had to be delayed until the Postal Service updated the necessary library references.

In sum, the Postal Service has adopted an expansive view of its own rights under Order No. 1294 and, in MMA’s opinion, taken many unjustified liberties in responding to that Order. Having done so, the Postal Service must be more circumspect in accusing others of violating the spirit or letter of Order No. 1294.

The Postal Service’s August 25 Motion To Strike is a thinly veiled request for reconsideration of POR 116. The Postal Service originally sought to block completely

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<sup>8</sup> As also discussed by ABA&NAPM witness Clifton, First-Class Automation letter “breakthrough productivity” cost reductions do not seem to be shared equally with their Standard Mail (A) automation counterparts. See ABA&NAPM-ST-1 at 10-13.

MMA's access to updated information on the measurement of workshare cost savings. Having lost that round, the Service now seeks to block MMA from using the information to update its original case.

There is absolutely no merit in the Postal Service's argument that Exhibit MMA-ST-1A and testimony relating to it should be stricken. USPS witness Miller's original measurement of workshare cost savings excluded all cost savings related to mail preparation and platform activities. Mr. Bentley's original testimony explained why it was not appropriate to exclude these cost sparing activities, quantified the difference between Mr. Miller's approach and his own, and included such cost differences in the workshare cost savings he presented. As Mr. Bentley noted, USPS witness Miller could not explain differences between Bulk Metered Mail and Automation letter platform costs. See Exhibit MMA-T-1 at 16-19. Exhibit MMA-ST-1 (Mr. Bentley's supplemental testimony) simply provides an explanation for those cost differences based on mail preparation worksharing activities that Mr. Miller was totally unaware of, while Exhibit MMA-ST-1A quantifies those cost differences and Library Reference MMA-LR-2 updates Mr. Bentley's original analysis based on the updated cost figures provided, *pursuant to POR 116*, in Library References USPS LR-I-466 and 468. Accordingly, there are no legitimate grounds to strike Exhibit MMA-ST-1A or the portions of Mr. Bentley's testimony which address this topic, namely Exh. MMA-ST-1, p. 5, Line 7 through p. 10, Line 4.

There is no greater merit in the Postal Service's arguments for striking the other portions of Mr. Bentley's testimony. The centerpiece of the Service's argument is that this testimony was based on facts that Postal Service interrogatories brought to light after Mr. Bentley's testimony was filed. See USPS Motion To Strike at 2.<sup>9</sup> Such new information is no different than the information which supports the Postal Service's updating of costs based, among many other factors, upon increases in energy costs specifically and inflation factors in general. Moreover, MMA submits that supplemental testimony of the type filed by Mr. Bentley was specifically contemplated by Order No.

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<sup>9</sup> The motion to strike elides the fact that it was the Service's own interrogatories that were responsible for unearthing this highly relevant new information.

1294 and POR 71. The goal of the update process initiated in Order No. 1294 is to obtain more accurate test year cost and revenue information upon which the Commission could set fees. Mr. Bentley's supplemental testimony addresses that issue directly in the context of workshare cost savings. As he testifies (Supplemental Testimony at 6):

[N]ot all of the mail preparation cost savings have been properly isolated or analyzed by the Postal Service. I am referring to cost savings that the Postal Service will realize by "requiring" workshare mailers to perform mail preparation tasks that postal workers performed in the Base Year but no will longer perform by the Test Year. ' To the extent such transfers of cost responsibility for mail preparation activities are not captured by the Postal Service's roll-forward model, postal costs for workshare letters will be overstated and workshare cost savings will be understated.

POR 71 clearly contemplated that intervenors might be submitting testimony "rebutting some aspect of the updated test year forecasts." POR 71 at 2. Mr. Bentley's testimony does just that.

Mr. Bentley's testimony also explicitly sets forth the required "nexus between the change and the revised test year forecasts." *Id.* The existing record shows that the Postal Service has embarked upon a systematic effort to shift responsibility for certain mail preparation activities from its own personnel to large workshare mailers. See TR 26/12240-41, 12246-12250, 12256, 2370-72. Unless there is some adjustment in the roll forward model to account for the results of this cost shifting, test year postal costs for workshare letters will be too high. Moreover, until workshare mailers receive recognition *and credit* for the extra work the Postal Service requires them to perform, workshare discounts will remain understated.

While Mr. Bentley was able to identify the problem and articulate the need for a remedy, a comprehensive resolution of this issue must await the next omnibus rate case or other appropriate proceeding. The reason: the record in this case does not contain the information required to measure the beneficial cost impact on the Postal Service costs of having other parties perform work for it. Accordingly, Mr. Bentley was constrained to "recommend that the Commission direct the Postal Service to measure the cost impact of workshare mailers' compliance with qualifying regulations, and to


include such savings as part of its derived cost savings *in the next omnibus rate proceeding.*" Exh. MMA-ST-1 at 6 (emphasis added). For these reasons, the Postal Service will not suffer any immediate "harm" if the Commission admits and considers Mr. Bentley's supplemental testimony.<sup>10</sup>

### **CONCLUSION**

For all of the foregoing reasons, the Postal Service's motion to strike should be denied.

Respectfully submitted,

**Major Mailers Association**

By: Michael W. Hall 

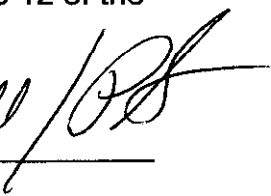
Michael W. Hall  
34693 Bloomfield Road  
Round Hill, Virginia 20141  
540-554-8880  
Counsel for  
Major Mailers Association

Dated: Round Hill, VA  
August 28, 2000

### **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing discovery request upon the United States Postal Service, Ted P. Gerarden, the Designated Officer of the Commission, and other interested participants in compliance with Rule 12 of the Commission's Rules of Practice.

Dated this 28th day of August 2000.

Michael W. Hall   
Michael W. Hall

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<sup>10</sup> The same is true of the portion of Mr. Bentley's testimony that addresses the Postal Service's uneven administration of new workshare "requirements." See Exh. MMA-ST-1, p.10, Line 6 through p. 11, Line 5.