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

Postal Rate and Fee Changes

Docket No. R2000-1

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

August 29, 2000

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

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I. INTRODUCTION

A. Statement of Qualifications

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.

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B. Purpose and Summary of Testimony

On August 11, 2000 the Postal Service was directed to update Library Réferences USPS-LR-I-137 and UPSP-LR-L-147 using FY 99 cost and volume data as the base year and to file this information by August 18. On August 18, the Postal Service filed a portion of its first version of these updated library references. That process was completed on August 21 with the filing of delivery cost information.

On August 23, I filed supplemental testimony, marked Exhibit MMA-ST-1, as required by Order No. 1294 and Presiding Officer Ruling Nos. 71 and 116. As part of that testimony I filed Exhibit MMA-ST-1A and submitted Library Reference MMA-LR-2. In the new library reference, I revised the analysis presented in my original Library Reference MMA-LR-1, filed May 22, 2000, which provides my original measure of First-Class worksharing cost savings by presort level.

1 Just yesterday, August 28, as I was preparing to take the witness stand,
2 the Postal Service filed new library references, USPS-LR-I-478, 480 and 482,
3 that use a different method for deriving First-Class non-automation costs for the
4 FY 99 update.

5 Using the August 21 and August 28 versions for USPS LR-I-137 and 147,
6 I have, once again, revised MMA-LR-1. The latest revision, identified as MMA-
7 LR-3, was filed just before the hearing began today.

8 All three of my library references indicate that First-Class workshare
9 savings are significantly greater than the discounts that MMA proposes.
10 Nevertheless, due to the numerous, untimely and inadequately explained
11 revisions that the Postal Service has made in response to Order No. 1294, I do
12 not recommend that the Commission rely on the resulting cost savings shown in
13 Library References MMA-LR-2 or 3. Such revisions are simply too controversial,
14 error prone, and ultimately unreliable for me or the Commission to place any
15 stock in them. As a consequence, I reluctantly recommend that, if and when the
16 Commission settles on cost figures it determines are accurate and reliable, it
17 simply substitute whichever cost pools it finally accepts into my cost model in
18 order to derive appropriate workshare cost savings.

19 I also discuss the importance of additional workshare mail preparation
20 activities that came to my attention after my original testimony was filed only as a
21 result of interrogatories the Postal Service directed to MMA witness Sharon
22 Harrison. The Postal Service claims that the significant cost differences between
23 First-Class Automation letters and its Bulk Metered Mail (BMM) benchmark for

1 the mail preparation and platform cost pools are unrelated to worksharing. Ms.
2 Harrison's descriptions of the mail preparation activities performed by MMA
3 companies convincingly refutes that claim. Moreover, the Postal Service has
4 been systematically shifting to workshare mailers significant cost burdens
5 associated with additional worksharing activities once performed by Postal
6 Service personnel. The Service has transferred the responsibilities for these
7 activities to workshare mailers in the guise of workshare discount requirements.

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

19 All of MMA's cost analyses indicate that workshare cost savings are
20 significantly higher than the discounts that I propose. Although I do not change
21 my specific rate recommendations, I urge the Commission to increase workshare
22 discounts even more, if possible, and to re-define workshare savings to include

1 activities that workshare mailers routinely perform but the Postal Service
2 excludes by design.

3

4 **II. Update of MMA's First-Class Workshare Cost Savings**

5 Library References MMA-LR-2 and 3 revise the cost analysis used to
6 derive workshare costs savings that was originally presented as MMA-LR-1. The
7 methodology for the update is exactly the same and simply incorporates revised
8 base year and test year volume variable cost pools, volumes, productivities,
9 wage rates, delivery costs and piggyback factors set forth in Library References
10 USPS LR-I-466 and 468, and USPS LR-I-478 and 482, respectively. These
11 costs were derived using the Commission-approved methodology for attributing
12 costs, which maintains, generally, that labor costs vary 100% with changes in
13 volume.

14 I do not recommend that the Commission use the results shown in either
15 MMA-LR-2 or MMA-LR-3 to support its final First-Class worksharing discounts.
16 The Postal Service maintains that it changed the methodology for collecting cost
17 data for First-Class Non-automation letters between FY 98 and FY 99. That
18 change, the Postal Service now claims, caused the costs of such letters to be
19 overstated and the costs of Automation letters to be understated. Therefore, the
20 updated derivations provided in Library Reference MMA-LR-2 apparently are
21 outdated.

22 Library Reference MMA-LR-3 has been completed only hours after
23 receiving revised updated data from the Postal Service. I have not had sufficient

1 time to review these revised documents, cannot explain why the derived
2 worksharing cost savings behave the way they have, and do not accept the new
3 cost pool amounts as the basis for my recommended discounts.

4 Although I have not had sufficient time to adequately review the Postal
5 Service's updated cost presentations in response to Commission Order 1294, I
6 note the following possible anomalies or areas that, in my view, require additional
7 explanation by the Postal Service.

- 8 • The Postal Service has applied what should have been "across-the-
9 board" cost increases for wages, inflation factors and energy costs. As
10 such I would have expected the relative cost changes by subclass to
11 be reasonably close (and in the same direction) as one another. This
12 has not been the case.
- 13
- 14 • First-Class costs appear to have been increased by several hundred
15 million dollars, and Commercial Standard Mail costs have been
16 reduced by almost a similar amount. See Exhibit MMA-ST-1B.
- 17
- 18 • USPS witness Patelunas was unable to explain why the updated costs
19 compared the way they do. He stated, "I have not made this
20 comparison because I have not had time and it is not necessary for my
21 testimony." See TR 35/16626-29, 16685-90, and response to
22 Interrogatory ABA & NAPM/USPS-ST44-13.
- 23
- 24 • In its updated cost presentations, the Postal Service has combined the
25 separate impacts of updated FY 1999 billing determinants and updated
26 cost change factors. See TR 35/16691-92, and response to
27 Interrogatory ABA&NAPM/USPS-ST44-1. In addition, the Postal
28 Service was given an opportunity to develop additional adjustments
29 that it felt was appropriate. It is not possible for me to update my cost
30 analysis simply to reflect the updated FY 1999 billing determinants
31 without incorporating all of the other changes that were made.
- 32
- 33 • The Postal Service has changed its longstanding policy of limiting the
34 wage rate change to one percent below the employment cost index
35 (ECI minus 1). Mr. Patelunas was instructed by unnamed
36 "management" officials, with no apparent explanation, to limit the wage
37 rate increase to equal the ECI. See TR 35/16796-16800.
- 38

- 1 • The Postal Service's revised updated costs were inspired by an
2 apparent large increase in First-Class non-automation unit costs as
3 reported by the In-Office Cost System. The unit costs for First-Class
4 Carrier Route presorted letters has declined from 3.1 cents to 2.4
5 cents. There is no logical explanation for this 23% decrease. See
6 Library References MMA-LR-1, 2 and 3, based on Library References
7 USPS-I-147, 466 and 478.
8
- 9 • The unit costs for all First-Class presorted letters appear to decrease
10 from 4.3 cents to 3.9 cents after the 8/21 updated cost presentation.
11 However, the unit cost for these pieces then increase to 4.5 cents as a
12 result of the 8/28 updated costs. There is no explanation as to why the
13 unit costs for all presorted letters should increase by 13% when the
14 Postal Service was allegedly correcting a cost shift between First-
15 Class Nonautomation and Basic letters with no change in the total
16 costs. See Library References MMA-LR-1, 2 and 3, based on Library
17 References USPS-I-147, 466 and 478.
18
- 19 • First-Class automation letter "breakthrough productivity" cost
20 reductions do not seem to be shared equally with their Standard Mail
21 (A) automation counterparts, as discussed by ABA&NAPM witness
22 Clifton. See ABA&NAPM-ST-1 at 10 - 13.
23

24 Absent the opportunity to review and analyze the underlying data that
25 derived MMA's workshare cost savings, I recommend that the Commission, after
26 making its decision on the appropriate costing methodology, base year, and cost
27 change inputs, simply substitute its final recommended cost pools into my cost
28 model to derive the appropriate workshare cost savings. In the alternative, the
29 Commission should use my original analysis of workshare cost savings provided
30 in Library Reference MMA-LR-1.

31 A summary of the results for the August 21 update and the August 28
32 update is provided in Tables 1 and 2, respectively. In those tables, the subtitle
33 "Worksharing-Related Unit Mail Processing Cost Savings" refers to mail
34 operations, and the subtitle "Potential Total Worksharing Unit Savings" refers to
35 mail operations and related cost savings associated with workshare mailers'

1 compliance with the Postal Service's move update requirements (.87 cents) and
 2 mandatory prebarcoding of any included reply mail envelopes (.47 cents), and
 3 averted window service costs (1.49 cents).

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Table 1
Comparison of MMA Derived First-Class Workshare Unit Cost Savings
(Original vs. August 21 Update)
(Cents)

Rate Category Benchmark	Original Analysis		8/21 Update 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
Comparison of MMA Derived First-Class Workshare Unit Cost Savings
(Original vs. August 28 Update)
(Cents)

Rate Category Benchmark	Original Analysis		8/28 Update 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	6.53	9.35
Auto 3-Digit Presort Letters Auto Basic Letters	1.52	4.32	1.58	4.40
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.87	4.68	1.95	4.77
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.47	3.28	1.33	4.15

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Tables 3 and 4 below show MMA's originally proposed Automation discounts compared to the August 21 and August 28 cost savings, respectively, and computes the percentage of workshare cost savings that can be expected to be passed through to workshare mailers.

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Table 3
Comparison of MMA Proposed First-Class Workshare Discounts
With the Derived Unit Cost Savings
(August 21 Update)
(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%

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Table 4
Comparison of MMA Proposed First-Class Workshare Discounts
With the Derived Unit Cost Savings
(August 28 Update)
(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	6.53	95%	9.35	66%
Auto 3-Digit Presort Letters Auto Basic Letters	1.2	1.58	76%	4.40	27%
Auto 5-Digit Presort Letters Auto 3-Digit Letters	1.8	1.95	92%	4.77	38%
Auto Car Rt Presort Letters Auto 5-Digit Letters	0.5	1.33	38%	4.15	12%

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8 III. Additional Mail Preparation Cost Savings Not Previously Measured

9 In response to Interrogatories USPS/MMA-T2-2, 5(a) and (b), MMA
10 witness Harrison and I discuss the First-Class workshare mail preparation
11 regulations as they currently exist and are administered. See TR 26/12240-41,
12 12246-12250, 12370-72. There, we indicate that in order to qualify for First-
13 Class automation discounts, workshare mailers must comply with a vast array of
14 prerequisite requirements with respect to the mailing piece itself, and with
15 respect to preparing the letters prior to the time they are deposited with the
16 Postal Service. All of the costs associated with such activities are borne by
17 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 \$442 million,
8 equivalent to just under 1.0 cent per piece, that USPS witness Miller's analysis
9 excluded. See Exhibit MMA-ST-1A (Revised 8/29/00).

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.¹ 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.

¹ 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.²

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

² 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 almost
8 \$250 million per year of annual cost savings associated with platform operations.
9 See Exhibit MMA-ST-1A (Revised 8/29/00). The Commission should not ignore
10 or disallow such cost-savings activities based on the unsupported assertions of a
11 Postal Service witness who is not familiar with the manner in which workshare
12 mailers prepare 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."³ See TR 7/3095.

³ 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 (Revised 8/29/00), Mr.
3 Miller's assumption caused him to disregard over \$200 million in annual
4 workshare cost 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 Because of the way the Postal Service has presented its cost updates and
8 the several revisions thereto, it has been very difficult to isolate the specific
9 impact that changing the base year from FY 98 to FY 99 has on the relationship
10 between derived workshare cost savings and MMA's proposed First-Class
11 workshare discounts. Nevertheless, under all of MMA's cost analyses, MMA's
12 proposals for modest increases in the current workshare discounts are dwarfed
13 by the relevant cost savings, as Tables 3 and 4 demonstrate.

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

19 I urge the Commission to provide workshare mailers with the necessary
20 financial incentives to stay with the program. The Commission should set the
21 record straight once and for all by including mail preparation and platform cost
22 savings as part of the workshare discount determination. It should expand the
23 definition of workshare cost savings to include additional cost savings pertaining

1 to move updates, inclusion of prebarcoded reply envelopes, and avoided window
2 service costs that the Postal Service obviously enjoys but does not consider to
3 be workshare-related. The Commission should increase workshare discounts to
4 the extent possible under the newly updated costs and revenues, and within the
5 guideline of the Postal Service's breakeven requirement.

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

9

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
(Revised 8/29/00)**

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) (2) (3)			(4) (5) (6)		
	USPS Method Unit Cost			PRC Method Unit Cost		
	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	0.304 [1]	0.026 [1]	0.330	0.340 [3]	0.064 [3]	0.404
Automation Unit Cost Savings	0.456 [2]	0.284 [2]	0.740	0.553 [2]	0.454 [2]	1.006
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]	205,208	123,171	328,379	242,577	200,175	442,752

- [1] USPS LR-I-481, File TY2001, Letters (4) spreadsheet
- [2] BMM Benchmark - Automation Letters
- [3] USPS LR-I-482, File TY2001, 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

EXHIBIT MMA-ST-1B

**Comparison of Original And Updated
Volume Variable Costs By
Subclass For The
Test Year After Rates
Using the USPS and PRC
Attributable Cost Methodologies**

Test Year After Rates Finances Using FY 99 Billing Determinants and USPS Cost Methodology
(\$000's)

Description	Updated	Original	Difference (1) - (2)	% Difference (3) / (2)
	Vol Variable Costs (1)	Vol Variable Cost (2)		
First-Class Mail				
Single-Piece Letters	13,585,288	13,326,042	239,226	1.80%
Presort and Automation Letters	5,081,634	5,019,484	62,170	1.24%
Total Letters	18,646,902	18,345,506	301,396	1.64%
Single-Piece Cards	543,567	539,919	3,648	0.68%
Presort and Automation Cards	173,866	168,958	4,908	2.90%
Total Cards	717,433	708,877	8,556	1.21%
Total First-Class Mail	19,364,335	19,054,383	309,952	1.63%
Priority Mail	3,194,542	3,064,062	130,480	4.28%
Express Mail	467,914	480,984	(13,070)	-2.72%
Mailgrams	854	1,000	(146)	-14.62%
Periodicals				
Within County	88,222	81,397	4,825	5.93%
Outside County	2,345,698	2,384,191	(38,493)	-1.61%
Total Periodicals	2,431,920	2,465,588	(33,668)	-1.37%
Standard Mail (A)				
Regular	6,512,735	6,823,933	(311,198)	-4.58%
Enhanced Carrier Route	2,829,439	2,471,864	157,575	6.37%
Total Commercial	9,142,174	9,295,797	(153,623)	-1.65%
Nonprofit	1,363,390	1,320,611	42,779	3.24%
Enhanced Carrier Route	199,829	208,577	(8,748)	-4.19%
Total Nonprofit	1,563,219	1,529,188	34,031	2.23%
Total Standard Mail (A)	10,705,393	10,824,985	(119,592)	-1.10%
Standard Mail (B)				
Parcel Post	1,077,003	1,052,158	24,845	2.36%
Bound Printed Matter	498,658	479,204	19,454	4.06%
Special Rate	357,987	301,195	56,792	18.86%
Library Rate	54,015	47,444	6,571	13.85%
Total Standard Mail (B)	1,987,665	1,880,001	107,664	5.73%
Penalty				
Free-for-the-Blind	31,833	40,348	(8,515)	-21.10%
Total Domestic Mail	38,184,455	37,811,351	373,104	0.99%
International Mail	1,570,744	1,429,916	140,828	9.85%
Total All Mail	39,755,199	39,241,267	513,932	1.31%
Special Services				
Registry	100,215	85,204	15,011	17.62%
Certified Mail	460,071	461,746	(1,675)	-0.36%
Insurance	79,549	76,638	2,911	3.80%
COD	16,629	14,992	1,637	10.92%
Money Orders	165,714	153,995	11,719	7.61%
Stamped Cards	3,048	3,444	(396)	-11.49%
Stamped Envelopes	11,077	12,544	(1,467)	-11.69%
Box/Caller Service	586,317	589,226	(2,909)	-0.49%
Other	123,487	141,324	(17,837)	-12.62%
Total Special Services	1,546,108	1,539,113	6,995	0.45%
Total Mail & Services	41,301,307	40,780,380	520,927	1.28%
Other Costs	28,031,846	27,978,701	53,145	0.19%
Other Income				
Prior Years Loss Recovery	311,709	268,257	43,452	16.20%
Continuing Appropriations				
Investment Income				
Grand Total	69,644,862	69,027,338	617,524	0.89%

Source: POIR Response Exh USPS-32B
(Revised 8/3/00) (Revised 4/21/00)
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Test Year After Rates Finances Using FY 89 Billing Determinants And PRC Cost Methodology
(\$000's)

Description	Updated	Original	Difference (1) - (2)	% Difference (3) / (2)
	Vol Variable Costs (1)	Vol Variable Cost (2)		
First-Class Mail				
Single-Piece Letters	14,946,743	14,691,253	255,490	1.74%
Presort and Automation Letters	5,490,877	5,420,559	70,318	1.30%
Total Letters	20,437,620	20,111,812	325,808	1.62%
Single-Piece Cards	569,597	592,305	7,292	1.23%
Presort and Automation Cards	184,525	181,167	3,358	1.85%
Total Cards	784,122	773,472	10,650	1.38%
Total First-Class Mail	21,221,742	20,885,284	336,458	1.61%
Priority Mail	3,563,988	3,332,232	231,756	6.95%
Express Mail	731,645	705,801	25,844	3.66%
Mailgrams	1,072	1,134	(62)	-5.45%
Periodicals				
Within County	90,814	84,139	6,675	7.93%
Outside County	2,469,420	2,522,213	(52,793)	-2.09%
Total Periodicals	2,560,234	2,606,352	(46,118)	-1.77%
Standard Mail (A)*				
Regular	7,063,234	7,402,439	(339,205)	-4.58%
Enhanced Carrier Route	2,766,183	2,835,907	(150,276)	-5.70%
Total Commercial	9,849,417	10,038,346	(188,929)	-1.88%
Nonprofit	1,474,455	1,425,673	48,782	3.42%
Enhanced Carrier Route	206,573	222,129	(15,556)	-7.00%
Total Nonprofit	1,681,028	1,647,802	33,226	2.02%
Total Standard Mail (A)	11,530,444	11,686,148	(155,704)	-1.33%
Standard Mail (B)				
Parcel Post	1,102,953	1,081,997	20,956	1.94%
Bound Printed Matter	513,871	481,326	32,545	6.76%
Special Rate	372,689	311,038	61,651	19.82%
Library Rate	54,996	48,828	6,168	12.63%
Total Standard Mail (B)	2,044,510	1,923,189	121,321	6.31%
Penalty	0			
Free-for-the-Blind	34,986	43,501	(8,515)	-19.57%
Total Domestic Mail	41,688,621	41,183,641	504,980	1.23%
International Mail	1,604,298	1,451,585	152,713	10.52%
Total All Mail	43,292,918	42,635,226	657,692	1.54%
Special Services				
Registry	77,171	82,759	(5,588)	-6.75%
Certified Mail	505,214	507,537	(2,323)	-0.46%
Insurance	82,093	78,113	3,980	5.10%
COD	18,556	16,727	1,829	10.93%
Money Orders	163,616	152,143	11,473	7.54%
Stamped Cards	3,046	3,444	(398)	-11.55%
Stamped Envelopes	11,034	12,473	(1,439)	-11.54%
Box/Caller Service	576,367	579,612	(3,445)	-0.59%
Other	186,446	199,806	(13,160)	-6.59%
Total Special Services	1,623,544	1,632,614	(9,070)	-0.56%
Total Mail & Services	44,916,462	44,267,840	648,622	1.47%
Other Costs	24,441,224	24,584,124	(142,900)	-0.58%
Other Income				
Prior Years Loss Recovery	311,709	268,257	43,452	16.20%
Continuing Appropriations				
Investment Income				
Grand Total	69,669,395	69,120,221	549,174	0.79%

*Standard Mail (A) S.P. Cost of (73) omitted

Source: LR-I-442 TYAR Exh MMA-1B at 2A

Comparison Of USPS and PRC Cost Differences For Test Year After Rates Using FY 99 Billing Determinants
(\$000's)

Description	Updated USPS % Diff	Updated PRC % Diff
	In Vol Var Costs (1)	In Vol Var Costs (2)
First-Class Mail		
Single-Piece Letters	1.80%	1.74%
Presort and Automation Letters	1.24%	1.30%
Total Letters	1.64%	1.62%
Single-Piece Cards	0.68%	1.23%
Presort and Automation Cards	2.90%	1.85%
Total Cards	1.21%	1.38%
Total First-Class Mail	1.63%	1.61%
Priority Mail	4.26%	6.95%
Express Mail	-2.72%	3.66%
Mailgrams	-14.62%	-5.45%
Periodicals		
Within County	5.93%	7.93%
Outside County	-1.61%	-2.09%
Total Periodicals	-1.37%	-1.77%
Standard Mail (A)		
Regular	-4.56%	-4.58%
Enhanced Carrier Route	6.37%	5.70%
Total Commercial	-1.65%	-1.88%
Nonprofit	3.24%	3.42%
Enhanced Carrier Route	-4.19%	-7.00%
Total Nonprofit	2.23%	2.02%
Total Standard Mail (A)	-1.10%	-1.33%
Standard Mail (B)		
Parcel Post	2.36%	1.94%
Bound Printed Matter	4.06%	6.76%
Special Rate	18.86%	19.82%
Library Rate	13.85%	12.63%
Total Standard Mail (B)	5.73%	6.31%
Penalty	0.00%	0.00%
Free-for-the-Blind	-21.10%	-19.57%
Total Domestic Mail	0.99%	1.23%
International Mail	9.85%	10.52%
Total All Mail	1.31%	1.54%
Special Services		
Registry	17.62%	-6.75%
Certified Mail	-0.36%	-0.46%
Insurance	3.80%	5.10%
COD	10.92%	10.93%
Money Orders	7.61%	7.54%
Stamped Cards	-11.49%	-11.55%
Stamped Envelopes	-11.69%	-11.54%
Box/Caller Service	-0.49%	-0.59%
Other	-12.62%	-6.59%
Total Special Services	0.45%	-0.56%
Total Mail & Services	1.28%	1.47%
Other Costs	0.19%	-0.58%
Other Income		
Prior Years Loss Recovery	16.20%	16.20%
Continuing Appropriations		
Investment Income		
Grand Total	0.89%	0.79%

Source:

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