

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

DIRECT TESTIMONY
OF
MICHAEL J. RILEY
ON BEHALF OF
THE AMERICAN POSTAL WORKERS UNION, AFL-CIO
January 30, 2002

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18 contribution per piece, not the percentage
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20 3. The costs avoided by pre-barcoding and pre-
21 sorting mail are declining over time; the Postal
22 Service's automation is successful.

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25

1 5. The Postal Service should send correct price
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4 unjustified.

5 7. The discount for QBRM should be cut
6 dramatically.

7
8 V. CONCLUSION

9 I recommend that discounts be set at 80 to 100
10 percent of avoided costs.

I. AUTOBIOGRAPHICAL SKETCH

1. Work Experience:

My name is Michael J. Riley. I am President of Riley Associates LLC, a consulting firm that I started in 2001 to provide financial consulting services to business, government agencies and non-profits. Harold Orenstein and Richard Yessian are Principals of Riley Associates LLC and work with me on major assignments.

From August 1993 to July 1998, I held the position of Senior Vice President and Chief Financial Officer of the U. S. Postal Service. Prior to that time, I served as CFO of Lee Enterprises, a newspaper and television station company and United Airlines, a subsidiary of UAL, Inc. Previously, I served as Treasurer of Michigan Bell Telephone Company and Assistant Controller of Northeast Utilities. I began my business career as an accountant at Teradyne, Inc.

2. Education:

My educational background includes a Bachelor of Science degree from the U. S. Naval Academy in 1965, a Master of Business Administration degree from the University of Southern California in 1972, and a Doctor of Business Administration degree from Harvard University in 1977. My work at Harvard required successful completion of all of the required course work for a PHD In Economics. My "Special Field of Study" was

1 Financial Institutions and Markets and my sub-field was
2 Corporate Finance.

3

4 **3. University Affiliations:**

5 I currently hold the position of Adjunct Professor at
6 George Mason University where I teach MBAs and Undergraduates
7 courses in Finance. Previously, I held positions on the faculty
8 of Harvard Business School, Boston University, University of
9 Connecticut, and University of Michigan.

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11 **4. Prior Testimony:**

12 I have testified before Committees of the U. S. Congress
13 and in labor arbitration while at the Postal Service.

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II. PURPOSE OF MY TESTIMONY:

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2 The purpose of my testimony is to propose that the Postal
3 Rate Commission adopt discounts for First-Class automated and
4 presort mail of 80 percent to 100 percent of the estimated costs
5 avoided by the U. S. Postal Service. I also refute the Postal
6 Service's proposal to offer discounts for pre-barcoded and pre-
7 sort mail in excess of the avoided costs. The Postal Service is
8 in financial jeopardy and cannot afford to price this mail
9 incorrectly. It is my opinion that such discounts violate good
10 management practice and are disruptive to the long-term
11 financial interests of the Postal Service.

12 The level of discounts in the proposed settlement is even
13 higher than that proposed by the Postal Service in its original
14 request. This makes the problem worse. The Postal Service
15 cannot afford to give away this revenue.

16 I propose alternative rate schedules, Table I and Table II.
17 Table I shows discounts based on 80 and Table II is based on 100
18 percent of avoided cost. Table III shows both sets of rates. I
19 suggest that the Postal Rate Commission set rates closer to
20 those in Table I. I used the estimated avoided costs sponsored
21 by USPS Witness Miller. Adopting rates within the range that I
22 recommend is in the public interest and is in accordance with
23 the policies of the Postal Reorganization Act as amended. This
24 is in the long-term best interest of the Postal Service, its
25 employees and the American public.

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III. GENERAL POLICY OBSERVATIONS

1. Good business management requires discounts be less than avoided costs:

As a practical matter the U. S. Postal Service operates a huge business as an independent agency of the U. S. Government. As such, I would be concerned when any business proposes to offer price discounts to its customers for work-sharing activities that are equal to the costs avoided by those activities. In a typical for-profit organization, I would expect there to be a monetary incentive to those customers who are capable of saving costs for the organization. The organization, however, would offer a price concession somewhat smaller than the costs that would be avoided by the efforts of its customers.

2. The Postal Service is in dire financial straits.

In the case of the Postal Service, rates must be set to cover all costs, including amortization of debt and a reasonable contingency. Most people interpret this to mean "break-even" over time. In fact the Postal Service has failed to meet this standard during most of the years of its existence. Since its inception, the Postal Service has never achieved a cumulative breakeven. The rate making process has consistently resulted in

1 worse financial results than what I believe that the law and
2 good management require.

3 While the Postal Reorganization Act does not allow for
4 profit maximizing behavior typical for a business, the Postal
5 Service needs to have more profits to ensure its viability. In
6 the past, net income resulting from rate cases and other effects
7 showed a shortfall once the new rates were implemented. The
8 Postal Service can no longer afford such a shortfall. In light
9 of the current circumstances, I would consider a pass through of
10 80 percent to 100 percent of costs avoided to be appropriate
11 pricing policy.

12 Looking at the Postal Service from a policy viewpoint, the
13 Postal Service cannot afford to err on the side of giving away
14 too much in discounts. The Postal Service is in dire financial
15 straits and it needs to follow sound financial policies to
16 remain a viable enterprise. Therefore, the Postal Rate
17 Commission should reduce the discounts to a number ranging from
18 80 percent to 100 percent of avoided costs. The only change I
19 recommend to the proposed settlement is to reduce the discounts
20 for First-Class mail. This should help the Postal Service
21 recover from its current predicament.

22 Updated financial information has not been added to the
23 record in this case because of the proposed settlement.
24 However, no reasonable person can ignore the effects on the
25 Postal Service of the terrorist attacks on September 11, 2001

1 and the anthrax attack that followed. The practical results of
2 these events will be revenues for the Postal Service below those
3 that it requested. I urge the Rate Commission, whenever it has
4 a range of choices, to pick the one that will generate the most
5 revenue for the Postal Service.

6

7 **3. Revenue assurance shows that actual cost avoided is**
8 **less than estimated cost avoided.**

9 During my time as CFO of the USPS, I instituted a revenue
10 assurance unit to focus on mailers who received unearned
11 discounts or otherwise failed to pay all the postage that was
12 due. To address part of this problem, the Postal Service has
13 purchased machines and software to check on the readability of
14 bar codes. This oft delayed project is named Merlin and it has
15 consistently shown that the quality and accuracy of some mailer
16 applied barcodes is less than that required by the USPS.

17 The Postal Service has disclosed information at the August
18 2, 2001 Mailers' Technical Advisory Committee meeting that shows
19 a significant percentage of mailings with less than 90 percent
20 barcode readability. There has been continuing controversy
21 about how large a portion of the mail qualifies for discounts.
22 Based on my general knowledge of the Postal Service and my
23 overall direction of the group that performed cost studies, I
24 believe that if the Postal Service were able to measure the
25 "actual" cost avoided, it would find that the "actual" cost

1 avoided by work-share are less than its "should cost" estimates
2 which are provided to the Postal Rate Commission in rate cases.

3 Since the Postal Service's proposed discounts are based
4 upon special studies which develop "should cost" estimates of
5 cost avoided by pre-barcoding and pre-sorting, in those cases
6 where the mail is not presented in the prescribed manner but is
7 granted the discount anyway, the result certainly will be the
8 Postal Service experiencing higher costs than had been
9 estimated. In this case, the CRA cost system will properly
10 register the "actual" costs of the mail with the resulting
11 contribution from such mail being less than had been
12 anticipated. This means that any error is likely to be against
13 the Postal Service. Therefore, discounts should be set at less
14 than estimated cost avoided.

15

16 **4. The Postal Service needs a return on its investment**
17 **in automation equipment.**

18 In the early years of its automation program, the Postal
19 Service needed more ZIP + 4 and later pre-barcoded mail to
20 improve its service and allow more efficient use of its
21 automation equipment. Today, that program is essentially
22 complete and it has received numerous upgrades. For example,
23 the ability of optical character reading technology to
24 accurately read handwritten addresses has improved dramatically
25 in the last few years. Thus, the Postal Service should be more

1 concerned with getting a continuing return on the billions of
2 dollars it has spent on its automation equipment in contrast to
3 granting excessive discounts to entice mailers to enter mail
4 that could be processed by the Postal Service at lower cost.

5 If the Postal Service suffers a large decline in total
6 volume, it becomes more important to maintain its expected
7 return on its existing investment in automation equipment. This
8 means that there is a reduction in the benefits to the Postal
9 Service of mailer prepared automated mail. To be specific, if
10 the larger discounts drive greater volume into pre-barcoded and
11 pre-sorted mail, then the Postal Service will realize a smaller
12 return on its investment in automation equipment. With an 80 to
13 100 percent pass through of estimated cost avoided, the Postal
14 Service will have more mail to process and more revenue with
15 which to do it.

16

17 **5. The success of the Postal Service's automation**
18 **lowers the cost avoided for presorted and barcoded mail**
19 **and should result in lower discounts.**

20 The Postal Service's automation is a success. It has
21 lowered the Postal Service expenses for its own mail sorting
22 activities. Therefore the savings to the Postal Service from
23 mailer prepared, presorted and barcoded mail has declined and
24 will continue to decline (USPS-T-22 rev. 11/29/01 pg.7).

25

1 **6. Each piece of First-Class discounted mail should**
2 **contribute at least as much absolute dollar**
3 **contribution as each piece of comparable non-discounted**
4 **mail.**

5 Each piece of First-Class discounted mail should contribute
6 at least as much absolute dollar contribution as each piece of
7 comparable non-discounted mail. This is especially true for
8 discounts offered within a subclass once the target coverage has
9 been established. Technically speaking, if the target coverage
10 implies a fixed contribution per piece for all pieces in the
11 subclass, then the discount must equal the "actual" avoided cost
12 realized by the Postal Service, so that the contribution of any
13 piece will be the same regardless of in which rate category in
14 the subclass that piece enters the mail stream. Said
15 differently, in the worst case the Postal Service should have
16 the exact same absolute contribution from the mailing of one
17 First-Class letter, regardless of how it is presented. If the
18 price reduction exceeds the cost avoided, then the remainder of
19 the category is required to pay a price higher than the price
20 that would otherwise have had to be paid. I believe that a
21 price reduction higher than cost avoided is inherently unfair.

22 To be conservative and thus reflect the current possibility
23 that some mail is entering the mail-stream at discounts for
24 which it does not properly qualify, the Commission should not
25 allow for further increases in discounts. Instead, the Rate

1 Commission should set discounts for these rates between 80
2 percent and 100 percent of avoided costs.

3

4 **7. By avoiding excessive discounts, a lower First-**
5 **Class Stamp of 36 cents might be possible.**

6 It is very important to realize that the effect of overly
7 generous discounts can be significant to all First-Class
8 mailers. Since the volume of single piece is roughly equal to
9 that of discounted mail, an unjustifiably high discount could
10 make the single piece rate higher than it would otherwise need
11 to be. If this discount reaches two cents per piece above an
12 appropriate level then the single piece rate possibly could be
13 reduced for everyone by a full cent.

14

15 **8. Prior to the establishment of discounts for First-**
16 **Class mail, many large mailers voluntarily presorted**
17 **mail.**

18 Entering First-Class mail prepared in SCF and five digit
19 ZIP codes was not uncommon prior to the institution of
20 discounts. Without a rate incentive, prior to the establishment
21 of discounts, many large mailers presorted mail for practical
22 business reasons. In my experience at Northeast Utilities,
23 Michigan Bell Telephone Company and United Airlines, the focus
24 was on speeding cash flow, more certain dates of delivery for
25 advertising inside the bill, and convenience in dealing with

1 Postal officials. The discounts were peripheral to our
2 analysis. As any good economist or marketing expert knows there
3 is far more to a decision than just the price. Economic
4 benefits were being achieved with little additional cost.

5

6 **9. Discounts should be set at 80 to 100 percent of**
7 **avoided cost.**

8 For the reasons detailed above, I conclude that the
9 discounts for First-Class mail should not exceed 100 percent of
10 estimated avoided cost. Typically, they should be set in the
11 range of 80 to 100 percent of estimated avoided cost.

12 The proposed settlement increases some discounts above the
13 levels that are in the original request of the Postal Service.
14 There is no justification offered for this additional discount
15 and this level of discount is even more detrimental to the
16 financial health of the Postal Service. It is a mistake in the
17 short run and makes the long run problem worse.

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1 **IV. POSTAL ARGUMENTS FOR DISCOUNTS GREATER THAN AVOIDED**
2 **COST ARE MISTAKEN, UNSUPPORTED, AND HAVE NO LOGICAL**
3 **BASIS**

4 **1. In the past, the Postal Rate Commission has**
5 **advocated discounts at 80 to 100 percent of estimated**
6 **cost avoided.**

7 In MC95-1 the Postal Rate Commission held that discounts
8 should be based on the cost that the work-sharing activity
9 avoids. Ms. Robinson acknowledges this point (USPS-T-29 pp
10 9,10) in her testimony. Also, she acknowledges the Commission's
11 belief that setting discounts to compensate mailers only for the
12 cost avoided by the Postal Service provides mailers an incentive
13 to presort or apply a bar code only if they can do so at lower
14 cost than the Postal Service. Good economics and good public
15 policy require a limit of discounts to a maximum of cost
16 avoided. The Postal Rate Commission has said as much in its
17 past orders and this is correct.

18
19 **2. The primary focus should be on the absolute**
20 **contribution per piece, not the percent markup.**

21 Once attributable costs are covered, the only thing that
22 should matter to the Postal Service in its efforts to generate
23 revenues to cover all its costs plus contingency is the per
24 piece contribution to institutional costs. Ms. Robinson's
25 testimony mistakenly implies that failure to focus on implicit

1 markups resulting from discounted mail ignores the value of this
2 mail to the Postal Service. This illogical statement is a
3 classic mistake of businesses that get into financial trouble.
4 What matters is not the percentage markup; what matters is the
5 total contribution or operating profit.

6 If discounts are given equal to cost avoided then the
7 calculated markup will increase. Technically speaking, if any
8 subclass of mail has a markup greater than zero, the implicit
9 markup of a portion (e.g. rate category) of that mail -- which
10 has been granted a discount for its cost avoidance -- will be
11 higher than the subclass average and certainly higher than the
12 other pieces in that subclass with lower absolute pass throughs.
13 The portion with the higher implicit markup has that markup from
14 simple arithmetic and is no more valuable based upon that
15 calculation.

16 One might go so far as to suggest that when the pass
17 through is set at 100 percent, each group in the sub-class is of
18 equal value to the Postal Service. Each comparable piece in the
19 subclass contributes the same contribution per piece. Ms.
20 Robinson's testimony proposes a pass through of more than 100
21 percent; in this case, the discounted mail is less valuable than
22 comparable single piece mail. It is only when the pass through
23 is less than 100 percent that the discounted category becomes
24 more valuable to the Postal Service. In short, value is

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1 determined by the amount, not the percentage, of the
2 contribution.

3 The Postal Rate Commission has consistently encouraged
4 rates that pass through no more than the calculated savings
5 within a sub-class. It has correctly stated that this policy
6 allows mailers to make sound choices as to whether they could
7 save more by presorting or using a non-presort rate. This
8 choice leads to the lowest cost producer providing the service
9 (bar-coding, sorting etc), which, in turn, minimizes the cost of
10 the activity to society as a whole. [See MC95-1 §3074] Thus,
11 the opposite of what Ms. Robinson believes is true. When
12 discounts are set greater than cost avoided, the absolute value
13 to the Postal Service of those discounted letters is less than
14 the single piece letters in the subclass. The single piece
15 mailers are required to contribute above and beyond their fair
16 share to the resulting shortfall.

17 This is unfair. The focus of a successful enterprise needs
18 to be on the amount of contribution, not the percentage markup.

19

20 **3. The cost avoided by discounted mail is declining**
21 **over time because the Postal Service's automation is**
22 **successful.**

23 Ms. Robinson's statements express concern about the
24 apparent trend over time of declining cost avoidance amounts and
25 the impact such decreasing savings will have on the automation

1 program. This concern is misplaced. This is the planned result
2 from the long-term strategic plan of the Postal Service.

3 The declining cost avoided is to be expected and is a
4 result of the continuing investment made by the Postal Service
5 in improving its automation (USPS-T-22 rev. 11/16/01 pg27). The
6 continuing investment in automation equipment and upgraded
7 software by the Postal Service has achieved its goal of reducing
8 the cost of sorting the mail. USPS Witness Miller confirms the
9 decline in the cost avoided by the Postal Service (USPS-T-22
10 rev. 11/29/01 pg.5).

11 USPS Witness Tolley observes the same thing for the cost of
12 the mailers. He testifies that the cost of presorting and
13 barcoding to the mailer is declining and is the result of
14 "improvements in automation equipment and software, which serve
15 to lower automation costs per piece" (USPS-T-7 pp 41-42).

16 I conclude that the mailers and the Postal Service are both
17 experiencing a decline in the cost of the sorting and barcoding.
18 This means that the discounts should be declining.

19

20 **4. A large shift from discounted First-Class to single**
21 **piece is unlikely.**

22 USPS Witness Robinson's testimony expresses the concern
23 that "...the Postal Service could experience operational
24 difficulties if a large portion of the workshared First-Class

25

1 Mail pieces reverted to the Postal Service for sorting and bar-
2 coding". (USPS-T-29 pg.21)

3 While there could be a cause for concern if lowered
4 discounts were to cause a dramatic switch from discounted to
5 single piece letters that would depend on whether the Postal
6 Service could handle the volume efficiently. The added single
7 piece volume from any decrease in discounts is likely to be
8 extremely small. USPS Witnesses Thress states that "In the
9 aggregate, workshared First-Class letters volume is virtually
10 unaffected by Postal rates, ...". (USPS-T-8 pg. 22) He states that
11 the elasticity of work-share mail is very low. This is
12 economist language that means the Witness Robinson's fears are
13 baseless.

14 Any reversal is highly unlikely and Ms. Robinson has not
15 demonstrated that the mailers would benefit by switching to
16 single piece even with dramatically lower discounts offered by
17 the Postal Service. Further, Ms. Robinson acknowledged, upon
18 cross examination, that mailers are slow to adjust to price
19 change signals and suggests that it could take many quarters for
20 the increase in volume to occur. (Tr.Vol.7 pg.1602) She has
21 certainly not established that the cost of qualifying for the
22 discounts has remained the same or increased. To the contrary,
23 USPS Witness Tolley describes declining user costs. (USPS-T-7
24 pg. 41) Finally, since the cost that the Postal Service is
25 avoiding by not having to sort the mail is declining, the higher

1 cost to handle this new non-presorted or non-barcoded mail will
2 be covered by the appropriate rate.

3

4 **5. The Postal Service should send correct price signals**
5 **to the mailers by lowering discounts.**

6 Ms. Robinson expresses a concern, at page 21 of her
7 testimony, that a change in direction of discounts would be
8 unfair to the mailers who have invested significantly and
9 changed their way of generating or processing mail in response
10 to the past expansion in these incentives. (USPS-T-29 pg 21)

11 One feature of capital investment in high tech equipment is
12 that these machines are expected to recover their costs in the
13 first year or two. Wise investors accept that rapidly evolving
14 technology can make this equipment outdated quickly. Therefore
15 the speed of recovery of costs becomes more important than the
16 percentage return on investment.

17 Further, she does not address the issue of fairness to the
18 Postal Service and particularly to the other mailers in the
19 First-Class Letters and Sealed Parcels Subclass, since these
20 other mailers are in fact going to pay higher rates to offset
21 the excessive discounts that she is proposing. The Postal
22 Service must focus its energy on improving the usefulness of its
23 capital to increase its chances of survival and recovery.

24 It is wrong to maintain erroneous cost avoidance signals
25 that overstate the true cost avoided. This works against

1 achieving economic efficiency for all portions of the subclass.
2 In fact economic efficiency is achieved by reducing discounts to
3 levels at or below actual cost avoided. "Lowering the implicit
4 cost coverage for the worksharing categories could result in
5 discounts which exceed the cost avoided by the Postal Service...
6 This results in productive inefficiencies. It sends signals to
7 mailers to engage in inefficient worksharing activities." (PRC
8 Decision MC-95-1 § 3075) This is especially true because I
9 expect the Postal Service to continue to have declining cost
10 avoided.

11 When mailers invest in computer programs and machines to
12 take advantage of work-share discounts, this becomes a fixed
13 cost that is irrelevant to any future decision to switch to
14 single piece. The decision to begin to qualify for discounts is
15 different from the decision to discontinue and switch back.
16 Knowledgeable mailers are well aware of the Postal Service's
17 investment in automation and the trend of cost avoided. They
18 made the decision to incur the investment to qualify for
19 discounts because their incremental cost is sufficiently less
20 than the discounts or postage saved.

21

22 **6. Any discount on the additional ounce rate is**
23 **unjustified.**

24 For the first time, Witness Robinson recommends a discount
25 on the additional ounce rate for automation mail. Ms. Robinson

1 cites an additional ounce cost study to support her
2 recommendation. (USPS-T-29 pg 25) She cites a difference of
3 only 0.15 cents for the average piece. I would suspect that the
4 proportion of extra ounces in the heavier weight categories of
5 single piece as compared to presorted letters might well explain
6 this minor difference. I should note that this estimate has
7 changed twice in the errata to the library reference indicating
8 some uncertainty about the estimate. (USPS LRJ-58) Even if
9 this difference of 0.15 cents were correct, it does not justify
10 the extra 0.50 cent discount proposed. Good economic policy
11 requires that the second ounce rate be the same for work-share
12 and single piece mail absent any meaningful showing of a true
13 cost difference. The difference of 0.15 cents is not
14 meaningful. This is not the time to add a new discount.

15

16 **7. The discount for Qualified Business Reply Mail**
17 **(QBRM) should be cut dramatically.**

18 Ms. Robinson recommends a discount for Qualified Business
19 Reply Mail of 2.5 cents in her testimony. (USPS-T-29 pg 15)
20 She argues that in light of the current 3.0 cent discount a
21 further reduction below the 2.5 cents would be unwarranted. She
22 takes this position despite a cost avoidance of 0.846 cents. I
23 should note that the errata have shown at least two changes in
24 this estimate. The last number that I found was approximately
25 1.6 cents as opposed to 0.846. (USPS LRJ-60 rev. Nov. 15, 2001

1 QBRM Summary Table) The settlement further exacerbates this
2 problem by keeping the QBRM discounts at 3.0 cents.

3 This excess pass through violates sound business practice
4 regardless of which cost figure is correct. I recommend that
5 the discount should be equal to or less than the initial
6 estimate of cost avoided. This means a discount of 0.6 to 0.8
7 cents at her initial cited cost avoidance of 0.846 cents. When
8 there is uncertainty, the choice should be the conservative or
9 lower number.

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VI. CONCLUSION:

I recommend that discounts be set at 80 to 100 percent of avoided cost.

In summary, I recommend that the Postal Rate Commission set discounts for First-Class mail at levels between 80 percent and 100 percent of the estimated cost avoided by the Postal Service. These rates are shown in my Exhibits I, II and III and assume that the cost avoided are as reported by witness Miller in his testimony. I suggest that the Postal Rate Commission set rates close to those on my Exhibit I, which reflects an 80 percent pass through. Further, I suggest that the best interests of the Postal Service and the nation are served by higher total revenues that will mitigate the dire financial straits of the Postal Service. Any added revenue generated would serve to lower the risk of financial disaster to the Postal Service while these rates are in effect. My testimony shows that Postal Service arguments for discounts greater than avoided costs are mistaken unsupported and have no logical basis.

Table I: APWU Proposed First-Class Mail Rates Based On 80 Percent Pass Through of USPS-Calculated Avoided Costs, in Cents

	Current Rate (1)	USPS Proposed Rate in USPS-T-29 (2)	USPS Proposed Discount from Single Piece Rate (Calculated from T-29, Table I)	USPS Proposed Discount from Single Piece Rate, Settlement Agreement (3)	80 Percent of USPS Avoided Cost (4)	APWU Proposed Discounts (5)	APWU Proposed Rates
Letters and Sealed Parcels							
Regular							
Single-Piece First Ounce	34.0	37.0	0.0				37.0
QBRM	31.0	34.5	2.5	3.0	1.318	0.6	36.4
Nonautomation Presort	32.2	35.2	1.8		0.643	0.6	36.4
Additional Ounce							
Single Piece	23.0	23.0	0.0				23.0
Presort	23.0	22.5	0.5		0.112	0.0	23.0
Automation Presort							
Letters							
Mixed AADC Presort	28.0	30.9	6.1		4.073	4.0	33.0
AADC Presort	28.0	30.1	6.9		4.773	4.7	32.3
3-Digit Presort	26.9	29.4	7.6	7.8	5.026	5.0	32.0
5-Digit Presort	25.5	28.0	9.0	9.2	5.935	5.9	31.1
Carrier-Route Presort	24.5	27.5	9.5				31.1
Flats							
Mixed ADC Presort	31.2	34.1	2.9				37.0
ADC Presort	31.2	33.3	3.7				37.0
3-Digit Presort	29.7	32.2	4.8				37.0
5-Digit Presort	27.7	30.2	6.8				31.1
Additional Ounce	23.0	22.5	0.5		0.112	0.0	23.0
Cards							
Regular							
Single-Piece	21.0	23.0	0.0				23.0
Nonautomation Presort	19.0	21.2	1.8		0.643	0.6	22.4
QBRM	18.0	20.5	2.5	3.0	1.318	0.6	22.4
Automation-Presort							
Mixed AADC Presort	17.4	19.4	3.6		1.089	1.0	22.0
AADC Presort	17.4	18.7	4.3		1.453	1.4	21.6

Table I: APWU Proposed First-Class Mail Rates Based On 80 Percent Pass Through of USPS-Calculated Avoided Costs, in Cents							
	Current Rate (1)	USPS Proposed Rate in USPS-T-29 (2)	USPS Proposed Discount from Single Piece Rate (Calculated from T-29, Table1)	USPS Proposed Discount from Single Piece Rate, Settlement Agreement (3)	80 Percent of USPS Avoided Cost (4)	APWU Proposed Discounts (5)	APWU Proposed Rates
3-Digit Presort	16.8	18.3	4.7		1.582	1.5	21.5
5-Digit Presort	16.1	17.6	5.4		2.053	2.0	21.0
Carrier-Route Presort	15.0	17.0	6.0				21.0

- (1) From Table 1, Testimony of Witness Robinson T-29
(2) From Table 1, Testimony of Witness Robinson T-29
(3) First-class mail Schedules 221 and 222, USPS Settlement Proposal (Revised 12/13/2001)
(4) Letter and card cost avoided numbers are from summary letter and card tables, Library Reference J-60 (Revised 11-15-2001), Witness Miller.

Witness Miller calculates the card cost avoided numbers using the nonautomated presort card as a benchmark. Consequently, his cost avoided numbers have been added to the estimate of cost avoided used for nonautomated presort cards to show an estimated cost avoided from the single-piece rate for cards.

QBRM cost avoided numbers are also from Library Reference J-60 (Revised 11/15/2001). The QBRM numbers have been changed twice since they were originally filed. The original number was 0.846 cents (submitted 9/24/01), the second number was 1.248 cents (submitted 11/5/2001) and the current number is 1.647 cents (submitted 11/15/2001).

Additional ounce cost differences are from Witness Schenk's Library Reference J-58. Those numbers have been revised three times. The original difference between first class single piece and first class presort was 13.90 cents - 13.75 cents or 0.15 cents (submitted 9/24/2001), a revised set of numbers showed a cost of 13.58 cents for single piece and 13.75 cents for presort (submitted 12/17/2001) and the final set of numbers, from which the cost number on the table is generated, show costs of 13.88 cents for single piece and 13.74 cents for presort (submitted 1/22/2002).

Witness Miller's Carrier Route Presort avoided costs for letters and cards are calculated from different benchmarks than the other avoided cost numbers and are not shown here. This proposal is for the Carrier Route Presort rates to equal the rate charged to 5-digit automated mail. Witness Miller does not provide a complete cost avoided analysis for flats, nor is cost avoided a part of the Postal Service's rate design for automated flat rates. Given the high cost of flats relative to the first-class single piece rate, this proposal is that the first ounce rate for automated flats should be the single-piece rate except for the 5-digit automated flats, which LR J-61 indicates provides some benefits to the Postal Service from mailer automation presort.

- (5) Discounts are the avoided cost from the column to the left, truncated at the first decimal place except for the QBRM rate and the additional ounce rates. Those exceptions are explained in the text of APWU-T-1 at IV 6 and 7.

Table II: APWU Proposed First-Class Mail Rates Based On 100 Percent Pass Through of USPS-Calculated Avoided Costs, in Cents							
	Current Rate (1)	USPS Proposed Rate in USPS-T-29 (2)	USPS Proposed Discount from Single Piece Rate (Calculated from T-29, Table1)	USPS Proposed Discount from Single Piece Rate, Settlement Agreement (3)	USPS Avoided Cost (4)	APWU Proposed Discounts (5)	APWU Proposed Rates
Letters and Sealed Parcels							
Regular							
Single-Piece First Ounce	34.0	37.0	0.0				37.0
QBRM	31.0	34.5	2.5	3.0	1.647	0.8	36.2
Nonautomation Presort	32.2	35.2	1.8		0.804	0.8	36.2
Additional Ounce							
Single Piece	23.0	23.0	0.0				23.0
Presort	23.0	22.5	0.5		0.14	0.0	23.0
Automation Presort							
Letters							
Mixed AADC Presort	28.0	30.9	6.1		5.091	5.0	32.0
AADC Presort	28.0	30.1	6.9		5.966	5.9	31.1
3-Digit Presort	26.9	29.4	7.6	7.8	6.282	6.2	30.8
5-Digit Presort	25.5	28.0	9.0	9.2	7.419	7.4	29.6
Carrier-Route Presort	24.5	27.5	9.5				29.6
Flats							
Mixed ADC Presort	31.2	34.1	2.9				37.0
ADC Presort	31.2	33.3	3.7				37.0
3-Digit Presort	29.7	32.2	4.8				37.0
5-Digit Presort	27.7	30.2	6.8				30.2
Additional Ounce	23.0	22.5	0.5		0.14	0.0	23.0
Cards							
Regular							
Single-Piece	21.0	23.0	0.0				23.0
Nonautomation Presort	19.0	21.2	1.8		0.804	0.8	22.2
QBRM	18.0	20.5	2.5	3.0	1.647	0.8	22.2
Automation-Presort							
Mixed AADC Presort	17.4	19.4	3.6		1.361	1.3	21.7
AADC Presort	17.4	18.7	4.3		1.816	1.8	21.2
3-Digit Presort	16.8	18.3	4.7		1.977	1.9	21.1

Table II: APWU Proposed First-Class Mail Rates Based On 100 Percent Pass Through of USPS-Calculated Avoided Costs, in Cents							
	Current Rate (1)	USPS Proposed Rate in USPS-T-29 (2)	USPS Proposed Discount from Single Piece Rate (Calculated from T-29, Table1)	USPS Proposed Discount from Single Piece Rate, Settlement Agreement (3)	USPS Avoided Cost (4)	APWU Proposed Discounts (5)	APWU Proposed Rates
5-Digit Presort	16.1	17.6	5.4		2.566	2.5	20.5
Carrier-Route Presort	15.0	17.0	6.0				20.5

- (1) From Table 1, Testimony of Witness Robinson T-29
(2) From Table 1, Testimony of Witness Robinson T-29
(3) First-class mail Schedules 221 and 222, USPS Settlement Proposal (Revised 12/13/2001)
(4) Letter and card cost avoided numbers are from summary letter and card tables, Library Reference J-60 (Revised 11-15-2001), Witness Miller.

Witness Miller calculates the card cost avoided numbers using the nonautomated presort card as a benchmark. Consequently, his cost avoided numbers have been added to the estimate of cost avoided used for nonautomated presort cards to show an estimated cost avoided from the single-piece rate for cards.

QBRM cost avoided numbers are also from Library Reference J-60 (Revised 11/15/2001). The QBRM numbers have been changed twice since they were originally filed. The original number was 0.846 cents (submitted 9/24/01), the second number was 1.248 cents (submitted 11/5/2001) and the current number is 1.647 cents (submitted 11/15/2001).

Additional ounce cost differences are from Witness Schenk's Library Reference J-58. Those numbers have been revised three times. The original difference between first class single piece and first class presort was 13.90 cents - 13.75 cents or 0.15 cents (submitted 9/24/2001), a revised set of numbers showed a cost of 13.58 cents for single piece and 13.75 cents for presort (submitted 12/17/2001) and the final set of numbers, from which the cost number on the table is generated, show costs of 13.88 cents for single piece and 13.74 cents for presort (submitted 1/22/2002).

Witness Miller's Carrier Route Presort avoided costs for letters and cards are calculated from different benchmarks than the other avoided cost numbers and are not shown here. This proposal is for the Carrier Route Presort rate to equal the rate charged to 5-digit automated mail. Witness Miller does not provide a complete cost avoided analysis for flats, nor is cost avoided a part of the Postal Service's rate design for automated flat rates. Given the high cost of flats relative to the first-class single piece rate, this proposal is that the first ounce rate for automated flats should be the single-piece rate except for the 5-digit automated flats, which LR J-61 indicates provides some benefits to the Postal Service from mailer automation presort.

- (5) Discounts are the avoided cost from the column to the left, truncated at the first decimal place except for the QBRM rate and the additional ounce rates. Those exceptions are explained in the text of APWU-T-1 at IV 6 and 7.

Table III: Summary of Proposed APWU First-Class Mail Rates

	APWU Proposed Rates Based on 80 Percent Pass Through (1)	APWU Proposed Rates Based on 100 Percent Pass Through (2)
Letters and Sealed Parcels		
Regular		
Single-Piece First Ounce	37.0	37.0
QBRM	36.4	36.2
Nonautomation Presort	36.4	36.2
Additional Ounce		
Single Piece	23.0	23.0
Presort	23.0	23.0
Automation Presort		
Letters		
Mixed AADC Presort	33.0	32.0
AADC Presort	32.3	31.1
3-Digit Presort	32.0	30.8
5-Digit Presort	31.1	29.6
Carrier-Route Presort	31.1	29.6
Flats		
Mixed ADC Presort	37.0	37.0
ADC Presort	37.0	37.0
3-Digit Presort	37.0	37.0
5-Digit Presort	31.1	30.2
Additional Ounce	23.0	23.0
Cards		
Regular		
Single-Piece	23.0	23.0
Nonautomation Presort	22.4	22.2
QBRM	22.4	22.2
Automation-Presort		
Mixed AADC Presort	22.0	21.7
AADC Presort	21.6	21.2
3-Digit Presort	21.5	21.1

	APWU Proposed Rates Based on 80 Percent Pass Through (1)	APWU Proposed Rates Based on 100 Percent Pass Through (2)
5-Digit Presort	21.0	20.5
Carrier-Route Presort	21.0	20.5

(1) From Table I, APWU-T-1, Testimony of Michael Riley

(2) From Table II, APWU-T-1, Testimony of Michael Riley

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Direct Testimony of Michael J. Riley on Behalf of the American Postal Workers Union, AFL-CIO, APWU-T-1, upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

Date: January 30, 2002


Susan L. Catler