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

**Postal Rate and Fee Changes**

**Docket No. R2001-1**

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

**February 20, 2002**

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1                                   **Direct Testimony of Richard E. Bentley**  
2                                   **On Behalf of**  
3                                   **Major Mailers Association**

4   **I.       INTRODUCTION**

5                   **A. Statement of Qualifications**

6           My name is Richard E. Bentley. I am President of Marketing Designs, Inc., a  
7   marketing and consulting firm. My business address is 9133 Ermantrude Court, Vienna  
8   VA 22182.

9           I began my career as a market research analyst for the Postal Rate Commission  
10   in 1973 and remained there until 1979. As a member of the Officer of the Commission's  
11   technical staff (now the Office of Consumer Advocate), I testified before the Postal Rate  
12   Commission in four separate proceedings. Since leaving the Commission, I have  
13   testified before the Commission as a private consultant in every major rate case, most  
14   recently in Docket No. R2001-1, and the most recent major reclassification case, Docket  
15   No. MC95-1. A more detailed account of my 25 years of experience as an expert  
16   witness on postal ratemaking and classification is provided as Attachment I to this  
17   testimony.

18           I have been President of Marketing Designs, Inc. since 1982. Marketing Designs  
19   provides specialized marketing services to retail, commercial, and industrial concerns,  
20   as well as consulting services to a select group of private clients.

21           I received a Bachelor of Science degree in Industrial Engineering/Operations  
22   Research from Cornell University in 1972. The following year I was awarded a Master's  
23   degree In Business Administration from Cornell's Graduate School of Business and  
24   Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering  
25   honor societies.

1           **B. Purpose and Summary of Testimony**

2           Major Mailers Association (MMA) is a signatory and strong supporter of the  
3 Stipulation and Agreement<sup>1</sup> (S&A). Prompt approval and implementation of the  
4 negotiated rates proposed in the S&A will provide the Postal Service with additional  
5 revenues of approximately \$ 1.2 billion (including \$600 million from First-Class) above  
6 the revenues that the Postal Service could expect to receive through the end of fiscal  
7 2003 under its initially filed rates (assuming an October 1, 2002 effective date). At the  
8 same time, the S&A provides the Postal Service and all affected parties with rate  
9 certainty and an end to litigation, important benefits during these uncertain times. For  
10 First-Class workshare mailers like MMA members, the S&A also mitigated somewhat  
11 the disproportionately high rate increase (9.3%) proposed in the Postal Service's initial  
12 filing.

13           All participants, except American Postal Workers Union, AFL-CIO (APWU), either  
14 support or do not oppose the S&A. Even APWU opposes only one limited aspect of the  
15 S&A: APWU objects to the S&A's proposed First-Class workshare discounts that APWU  
16 claims are greater than the Postal Service's purported cost savings. APWU's position  
17 apparently is that the Postal Service and, indirectly APWU members, should receive not  
18 only the increased revenues made possible by the June 30, 2002 implementation date  
19 but also additional revenues of up to \$ 3.1 billion<sup>2</sup> (including \$2.5 billion from First-  
20 Class) that would result from adoption of the drastically lower First-Class workshare  
21 discounts APWU witness Riley proposes. In other words, APWU proposes to take  
22 advantage of the earlier implementation date provided for in the S&A while increasing  
23 rates for First-Class workshare mail, already the Postal Service's most profitable rate  
24 category, by over 18 percent.

25  

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<sup>1</sup> See Motion of the United States Postal Service Submitting Second Revised Stipulation and Agreement (January 17, 2002).

<sup>2</sup> The exact revenue impact of APWU's unprecedented proposed First-Class rate increases are difficult, if not impossible to project. Mr. Riley made no effort to estimate test year volumes and finances at his proposed rates. Tr 12/4880. For the sake of simplicity, my revenue impact analysis assumes that volumes remain unchanged from those projected under the Postal Service's original rate proposals in this case.

1 While I do not necessarily agree with APWU witness Riley's premise, that rate  
2 discounts must be lower than cost savings,<sup>3</sup> the main purpose for my testimony is to  
3 show that the workshare discounts proposed in the S&A are, in fact, far lower than the  
4 relevant cost savings. To accomplish this, I have focused most of my testimony on  
5 USPS witness Miller's proposed changes to the Commission's methodology for  
6 measuring workshare cost savings, and have eliminated from my analysis other related  
7 issues that I normally would address if MMA were filing a case-in-chief.<sup>4</sup>

8 The First-Class workshare discounts contained in the S&A are almost identical to  
9 those originally proposed by the Postal Service; the only differences are that the  
10 discounts for 3-digit and 5-digit automation letters are increased by .2 cents, while the  
11 carrier route discount is reduced by .2 cents. In contrast, Mr. Riley proposes to reduce  
12 the currently effective discounts significantly. Table 1 compares First-Class workshare  
13 discounts proposed by APWU to the current discounts, the discounts originally  
14 proposed by the USPS and those incorporated in the S&A.

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<sup>3</sup> It would still make sense to offer discounts higher than cost savings in certain situations. One example might be when the alternative, such as workshare letters shifting to single piece, would cause operational problems for the Postal Service that affect its ability to meet applicable service standards. Another example might involve the other alternative, that workshare letters would simply leave the postal system entirely. In that event, the loss of the entire profit from workshare letters would hurt the Postal Service more than granting discounts that are larger than the savings. The Postal Service itself has justified the recommendation of First-Class workshare discounts that are greater than its purported cost savings in each of the last three rate cases. Interestingly, APWU witness Riley was Senior Vice President and Chief Financial Officer of the Postal Service when one such case, Docket No. R97-1, was filed with the Postal Rate Commission.

<sup>4</sup> One of the most important issues regarding the derivation of workshare cost savings is the benchmark from which the savings are measured. In the last case I argued that the Commission's use of bulk metered mail (BMM) as the benchmark was inappropriate and unfair. The isolated examples USPS witness Miller provided in this case to demonstrate that BMM does, in fact, exist, do not change my opinion. Mr. Miller's testimony proves just how anomalous BMM really is, and how little is known about it. I am even more convinced that BMM is an inappropriate benchmark to establish rates for 50 billion pieces. If MMA were presenting its case-in-chief, this is one of the issues I would address. However, because of the extraordinary circumstances of this case, it is not necessary to address this and other issues in surrebuttal testimony.

**Table 1**  
**Comparison of Proposed First-Class Workshare Discounts**  
**(Cents)**

<b>First-Class Workshare Rate Category</b>	<b>Current Discount</b>	<b>USPS Originally Proposed Discount</b>	<b>S&amp;A Proposed Discount</b>	<b>APWU Proposed Discount</b>
Basic	6.0	NA	NA	NA
Mixed AADC	NA	6.1	6.1	5.0
AADC	NA	6.9	6.9	5.9
3-Digit	7.1	7.6	7.8	6.2
5-Digit	8.5	9.0	9.2	7.4
Carrier Route*	1.0	0.5	0.3	0.0

\*Measured from 5-Digit

In recommending much lower First-Class workshare discounts, Mr. Riley has “assume[d] that the cost avoided are as reported by [USPS] witness Miller.” Tr 12/4864. Mr. Riley also repeatedly asserted that Mr. Miller’s avoided cost estimate is the only evidence in the record. Tr 12/4903-4. Mr. Riley has ignored two other estimates of workshare cost savings that were provided by the Postal Service and are included in the record: (1) cost savings using the Commission’s cost attribution methodology and its assumptions regarding delivery workshare savings (Tr 10A/2620) and (2) cost savings using the exact methodology used by the Commission in the last case (Tr 10A/2862). As discussed below and in Exhibit MMA-4A, Mr. Riley’s claim also disregards other record evidence that casts serious doubt on the accuracy and reasonableness of the Mr. Miller’s cost savings estimate. My analysis takes all of this record evidence into account.

In recent rate cases, the Commission has consistently found that the Postal Service has understated workshare cost savings. In Docket No. R97-1, the Commission rejected the Service’s proposal to attribute costs on the assumption that labor costs do not vary 100% with changes in volumes. Adoption of the USPS assumption would have artificially reduced derived workshare cost savings. In Docket No. R2000-1, the Commission again rejected the Postal Service’s cost attribution

1 methodology and also rejected USPS witness Miller's unreasonable claim that platform  
2 operations were not impacted by worksharing. In the current proceeding, USPS witness  
3 Miller found new ways to derive lower workshare cost savings.

4 My testimony and analyses demonstrate that the cost savings derived by Mr.  
5 Miller do not provide an appropriate measure of cost savings. In this case, USPS  
6 witness Miller modified the methodology that the Commission relied upon for deriving  
7 cost savings in Docket No. R2000-1. The changes he made all artificially reduce the  
8 derived workshare cost savings. First, he used the Postal Service's proposed  
9 methodology for attributing costs rather than the cost attribution method this  
10 Commission has used in case after case. Second, he eliminated from his cost savings  
11 analysis certain cost pools that consistently show workshare letters cost less than other  
12 First-Class metered mail letters, the benchmark mailpiece he used as a proxy for BMM.  
13 Finally, Mr. Miller made a radical new assumption about delivery cost savings that, by  
14 itself, reduced his derived cost savings by almost 2 cents.

15 I have derived the workshare cost savings using the exact same methodology  
16 that the Commission used just over a year ago in its Opinion And Recommended  
17 Decision in Docket No. R2000-1 (PRC R2000-1 Methodology). To provide the  
18 Commission and the parties with a clear road map of what I have done, all relevant  
19 sources and calculations involved in deriving workshare cost savings using the  
20 Commission's R2000-1 methodology are shown in Library Reference MMA-LR-J-3.<sup>5</sup> In  
21 addition, based on evidence developed in this case, I have corrected a fundamental  
22 error in the method USPS witness Schenk used for estimating delivery costs. My  
23 corrections of Dr. Schenk's methodology are documented in Library Reference MMA-  
24 LR-J-2.<sup>6</sup> Finally, I have incorporated what I believe is a more accurate and consistent  
25 method for deriving workshare cost savings in Library Reference MMA-LR-J-1. That  
26 analysis, which I identify as the "MMA Methodology," is identical to the Commission's

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<sup>5</sup> Library Reference MMA-LR-J-3, entitled "PRC Version Workshare Cost Savings" is based on Library Reference USPS-LR-J-84 entitled "PRC Version Letters/Cards Mail Processing Cost Models and Fee Cost Models," as revised on November 15, 2001. The only change I made to the USPS library reference was to correct the Postal Service's erroneous treatment of two cost pools, discussed in Section III of my testimony. The results of this analysis were confirmed by the Postal Service. Tr 10A/2862.

<sup>6</sup> Library Reference MMA-LR-J-2 is based on Library Reference USPS-LR-J-117, entitled "Development of Delivery Costs by Rate Category for First-Class and Standard," sponsored by USPS witness Schenk, as revised on November 20, 2001.

R2000-1 methodology except for the correction made necessary by USPS witness Schenk's approach to delivery costs and use of single piece metered letters (without collection costs) as a proxy for BMM to derive delivery cost savings. Table 2 compares the worksharing cost savings for all three methods to the workshare discounts proposed in the S&A.

**Table 2**  
**Comparison of Various Derived First-Class Worksharing Cost Savings**  
**To the S&A's Proposed Discounts**  
**(Cents)**

First-Class Workshare Rate Category	S&A Proposed Discounts	Derived Workshare Cost Savings		
		USPS Presentation	PRC R2000-1 Methodology <sup>7</sup>	MMA Methodology
Mixed AADC	6.1	5.1	8.0	8.1
AADC	6.9	6.0	9.1	9.1
3-Digit	7.8	6.3	9.4	9.5
5-Digit	9.2	7.4	10.7	11.4
Carrier Route*	0.3	2.0	2.0	2.0

\*Measured from 5-Digit

Sources: Library References USPS-LR-J-60, MMA-LR-J-3, and MMA-LR-J-1

As shown in Table 2, the discounts proposed in the S&A are **significantly** lower than the derived cost savings using either the PRC or MMA methodologies.

APWU witness Riley argues that the workshare discounts should be set between 80% and 100% of the derived cost savings. Mr. Riley measures the discounts he proposes from the cost savings derived by USPS witness Miller. A fundamental problem with APWU's approach is that Mr. Riley has merely accepted, without any critical examination, USPS witness Miller's derived cost savings. Tr 12/4876. That methodology has never been accepted by the Commission and one very important

<sup>7</sup> Note that the cost savings I derive using the "PRC R2001-1 Methodology" assume that the USPS delivery costs that USPS witness Schenk presented in this case are accurate. As discussed in more detail below, I have corrected one major flaw in her measurement of delivery cost savings that has been revealed on the record in this case.



1 element, involving the choice of an appropriate cost attribution method, has been  
2 consistently rejected by the Commission. As shown in Table 3, the discounts proposed  
3 in the S&A meet or exceed the 80% - 100% standard he advocates if the Commission  
4 measures the discounts proposed in the S&A against either its own methodology  
5 established in the last case or the MMA Methodology. In other words, based on the  
6 derived cost savings that I present in my testimony, APWU witness Riley's complaints  
7 regarding the relationship between the proposed discounts and cost savings no longer  
8 apply and his testimony is essentially moot.

9 **Table 3**  
10  
11 **Percent Passthrough of the S&A's Proposed First-Class Workshare Discounts**

First-Class Workshare Rate Category	Percent Passthrough	
	PRC R2001-1 Methodology	MMA Methodology
Mixed AADC	76%	75%
AADC	76%	76%
3-Digit	83%	82%
5-Digit	86%	81%
Carrier Route	15%	15%

Source: Table 2

12 For Automation letters presorted to carrier route, Mr. Miller's derived unit cost  
13 savings from the 5-digit letter benchmark is 2.0 cents. Without any reason<sup>8</sup>, APWU  
14 witness Riley recommends that the Commission ignore these worksharing cost savings  
15 by reducing the passthrough percentage to zero. There can be no justification for  
16 eliminating the additional carrier route discount when, clearly, all three methodologies  
17 indicate that carrier route sorting saves the Postal Service 2.0 cents. A passthrough of  
18 only 15% of the savings, as proposed by the S&A, is more than fair to the Postal  
19 Service.

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<sup>8</sup> Mr. Riley merely states that his proposal is "for the Carrier Route Presort rate to equal the rate charged to 5-digit automated mail. Tr 12/4865. He provides no explanation why his 80% to 100% should not apply to carrier route presorted letters.

1 Four exhibits accompany my testimony. Exhibit MMA-1A summarizes total  
2 postal finances for the test year under various rate proposals, including those proposed  
3 by the Postal Service before and after rates, the S&A and APWU. Exhibit MMA-2A  
4 analyzes and quantifies the changes that USPS witness Miller made to the  
5 Commission's Docket No. R2001-1 methodology for measuring workshare cost savings.  
6 Exhibit MMA-3A quantifies the impact of the S&A and APWU rate proposals compared  
7 to the rates originally proposed by the Postal Service. Exhibit MMA-4A is a technical  
8 description of corrections that I have made to USPS witness Schenk's delivery cost  
9 study.

## 10 **II. APWU'S PROPOSED FIRST-CLASS WORKSHARE RATES**

11 The First-Class workshare rates APWU witness Riley proposes are significantly  
12 higher than the rates reflected in the S&A and much higher even than those originally  
13 proposed by the USPS in its rate filing. I strongly urge the Commission to reject  
14 APWU's proposals. APWU's proposed rates are based on faulty estimates of the  
15 derived worksharing cost savings, as discussed in much further detail in Section III  
16 below. APWU's workshare rate proposals also ignore relevant ratemaking standards.

### 17 **A. Postal Ratemaking Criteria**

18 Aside from the cost issue, APWU's proposed rates simply ignore the ratemaking  
19 criteria that have long been established by Congress as provided in the Postal  
20 Reorganization Act. Mr. Riley proposes to raise First-Class workshare rates drastically  
21 without any concern or regard for the adverse impact his proposals would have on  
22 affected workshare mailers, ignoring Section 3622(b) (4). Similarly, Mr. Riley's  
23 proposals completely disregard the concept of breakeven, as embodied in Section  
24 3621<sup>9</sup>, and give no consideration to the private express statute. His proposals also  
25 disregard the Commission's policies regarding cost coverages and cost mark-ups. In  
26 my experience, the Commission has never before accepted proposed rates that are

---

<sup>9</sup> Mr. Riley recommends that the Commission provide the Postal Service with the highest possible test year surplus. He also attempted to justify this surplus, coming from one, and only one, rate category – First-Class workshare mailers, as a contingency allowance. Tr 12/4892. Never before has the Commission “backed into” the contingency allowance based on an alleged need to raise rates from one rate category as Mr. Riley has. Normally, the contingency is based on a percentage of total projected costs to account for unexpected events.

1 based on nothing more substantial than vague arguments. Nor am I aware of any  
2 credible ratemaking theory that supports Mr. Riley's suggestion that a regulated concern  
3 like the Postal Service, which exercises monopoly control over the relevant product  
4 market, should be entitled to raise additional revenues by increasing the price of its  
5 most profitable product more than twice the average of all other products. Yet that is  
6 exactly what APWU witness Riley is proposing.

7 Finally, APWU witness Riley argues that workshare letters must contribute to  
8 recovery of institutional costs at least as much on a unit basis as single piece letters  
9 contribute. He summarizes his position as follows:

- 10 ● Each piece of First-Class discounted mail should contribute at least as  
11 much absolute dollar contribution as each piece of comparable non-  
12 discounted mail (Tr 12/4841-2);
- 13 ● The primary focus should be on the absolute contribution per piece, not the  
14 percentage markup (Tr 12/4842); and
- 15 ● What matters is not the percentage markup; what matters is the total  
16 contribution or operating profit (Tr 12/4846).

17 Mr. Riley's position is fine in theory but must less meaningful in practice. MMA asked  
18 Mr. Riley how one should determine and compare the unit contribution from a  
19 workshare letter to that of a "comparable non-discounted" letter. His response shows  
20 that he does not know how to translate his theory into practice.<sup>10</sup>

21 We do know that, for each rate category **as a whole**, workshare mail's unit  
22 contribution to institutional costs is higher than that of single piece mail. See Exhibit  
23 MMA-1A and Table 4 below. But certainly this comparison is not what Mr. Riley had in  
24 mind. First-Class workshare mail consists primarily of letter shapes weighing up to 1  
25 ounce, whereas single piece mail has proportionally far more flats and SPRs that weigh  
26 up to 13 ounces. Ultimately, I believe it is fair to say that the Commission's

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<sup>10</sup> When asked to explain exactly how to measure contributions separately from First-Class workshare and single piece letters, Mr. Riley provides absolutely no assistance. All he could do was quote his original testimony stating that the contribution should be measured "so that the contribution of any piece will be the same regardless of in which rate category in the subclass that piece enters the mail stream." Tr 12/4879. That explanation adds nothing to the record. When asked to provide the contributions under his proposal, his answer was "I have not calculated the specific numbers." (Id.)

methodology for deriving workshare cost savings and recommending discounts attempts to equalize the unit contributions for comparable pieces.

There are other factors for setting rates, on an absolute basis, which Mr. Riley appears to ignore. Table 4 below compares the First-Class workshare rates proposed by APWU with those contained in the S&A and provides the anticipated test year postal finances if volumes do not react to the changes in the rates as originally proposed by the Postal Service.<sup>11</sup>

### Table 4

**Comparison of Estimated Postal Finances Using the APWU and S&A Proposed First-Class Rates (\$000, except where shown otherwise)**

Description	S&A			APWU		
	Single Pc	Workshare	All Mail	Single Pc	Workshare	All Mail
Cost Coverage	160%	266%	164%	160%	290%	167%
Mark-Up Index	60%	261%	100%	89%	283%	100%
Unit Contribution	\$ .175	\$ .193		\$ .175	\$ .221	
Proposed Increase	7.5%	8.8%	7.8%	7.5%	18.6%	10.0%
TY Profit All Mail			\$29,352			\$1,553,972

Source. Exhibit MMA-1A

As shown in Table 4, APWU suggests that the Commission increase First-Class workshare rates by 18.6%, almost 2 ½ times the 7.8% average increase for all mail in the settlement. Although never discussed by Mr. Riley, Table 4 also shows that APWU's proposal would provide the Postal Service with profits that are over \$1.5 billion more than the Postal Service requested in its original filing or will receive under the S&A. There simply is no justification for providing the Postal Service, and indirectly APWU members, such a windfall.

Finally, APWU recommends that the First-Class workshare cost coverage and mark-up index be raised by unprecedented, excessive amounts. The Commission should recognize that even with the modestly increased discounts set forth in the S&A,

1 the resulting implicit cost coverage and mark-up index are still **higher** than those the  
2 Commission recommended for First-Class workshare in Docket No. R2000-1. Under  
3 the S&A, the cost coverage for workshare letters will increase from 248 to 261, while the  
4 mark-up index will increase from 260 to 261.

5 Adopting APWU's unsupported workshare rates would impose an unjustifiable  
6 cost burden on workshare mailers in the short term and could jeopardize the viability of  
7 the Postal Service in the long term. The Nation is currently in the midst of the first  
8 recession in a decade. Under the circumstances, there can be no legitimate  
9 expectation that First-Class workshare mailers will simply be able to absorb the  
10 increased expenses that would result from adoption of the much higher rates Mr. Riley  
11 proposes. Many business mailers, including MMA members, already have been forced  
12 to lay off employees and trim budgets dramatically to cope with the adverse financial  
13 effects of the recession. Implementation of APWU's ill-considered workshare rates will  
14 only exacerbate mailers' problems in the short term.

15 In the longer term, mailers understandably would interpret adoption of APWU's  
16 rate proposals as a signal that the Postal Service and this Commission are abandoning  
17 them. As I testified in the last case, implementation of the worksharing concept is  
18 probably the number one reason why the Postal Service has been able to achieve some  
19 semblance of rate stability over the years. Worksharing is a partnership. Both mailers  
20 and the Postal Service need each other. If the Postal Service and Commission turn  
21 their backs on workshare mailers, who continually strive to comply with the Postal  
22 Service's ever-changing regulations, it would certainly backfire. The Postal Service  
23 geared up to process approximately 50 billion First-Class single piece letters since it  
24 was established as a quasi-government institution 30 years ago. See USPS-T-7, page  
25 34. Altering the workshare relationship now, as APWU recommends, could cause  
26 workshare mailers, particularly those within the presort bureau industry, to abandon the  
27 worksharing program. Certainly, the Postal Service cannot react quickly, if at all, if such  
28 a reduction in worksharing resulted from reduced discounts. In the longer term, mailers  
29 have, and will entertain, other options.

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<sup>11</sup> Estimating volumes that result from various rate proposals is beyond the scope of this testimony.

**B. Impact of APWU's Proposed First-Class Workshare Rates**

The rates proposed in the S&A are fair to both the Postal Service and to mailers. The S&A rates will generate almost as much revenue as the rates originally proposed by the Postal Service. For example, the original filing anticipated that total increased First-Class revenues would reach \$2.8 billion for the test year ending September 2003. Under the S&A, this increased test year revenue total will be reduced by about \$82 million. However, because of the expedited implementation date, the Postal Service will be able to generate additional net revenues of approximately \$1.2 billion, including \$600 million from First-Class. That very logical tradeoff benefits the Postal Service directly and APWU members indirectly. In return for slightly lower rates, the Postal Service stands to add \$1.2 billion to its bottom line over the 15-month period that ends on September 30, 2003.

The APWU proposal represents a far different story. Recall that the original rates were expected to generate an additional \$2.8 billion in revenues from First Class. Implementation of APWU's proposed rates on or about October 1, 2002 could increase postal revenues by as much as \$1.4 billion, for a total of \$4.2 billion for the test year. If the implementation date is expedited as proposed under the S&A, an additional \$1.1 billion could be generated by APWU's rates, bringing the total First-Class increase in this case to as high as \$5.3 billion. Table 5 summarizes this information.

**Table 5**  
**Comparison of Settlement With APWU and S&A's Proposed Rates**  
**Assuming No Change in Volumes**  
**(\$000)**

<b>First-Class Revenue Gain</b>	<b>Original USPS Proposed Rates</b>	<b>S&amp;A Proposed Rates</b>	<b>APWU Proposed Rates</b>
<b>Compared to Test Year Before Rates:</b>			
For Test Year Only	2,808,301	2,725,919	4,250,539
Through Test Year with 7/1/02 Implementation	NA	3,407,399	5,313,174
<b>Compared to USPS Original Request:</b>			
For Test Year Over What USPS Requested		(82,382)	1,442,238
Through Test Year with 7/1/02 Implementation		599,098	2,504,873

Source: Exhibit MMA-3A

1 The \$2.5 billion windfall produced by APWU's rates is 89% higher than the First-Class  
2 increase that which was originally requested by the Postal Service. The resulting \$1.4  
3 billion of extra revenue generated in the test year by APWU's proposed rates cannot be  
4 reconciled with the concept of breakeven, as I understand it. Nor does it seem fair and  
5 equitable to generate these revenues from one rate category that already makes by far  
6 the largest contribution to institutional costs. Accordingly, I urge the Commission to  
7 reject outright the rate recommendations made by APWU witness Riley.

### 8 **III. DERIVATION OF FIRST-CLASS WORKSHARE COST SAVINGS**

#### 9 **A. USPS Adjustments to the Commission's Methodology**

10 USPS witness Miller presents a derivation of workshare cost savings that is  
11 similar to the one he presented in Docket No. R2000-1. His methodology takes actual  
12 base year cost information projected into the test year, and then uses mail flow models  
13 to de-average the CRA costs into various categories of First-Class mail.<sup>12</sup> In Docket  
14 No. R2000-1, the Commission rejected significant portions of Mr. Miller's analysis, and  
15 recommended to the Board of Governors workshare discounts and rates based on its  
16 own methodology for deriving workshare cost savings.

17 In this case, Mr. Miller did not follow the Commission's R2000-1 methodology.  
18 Mr. Miller's failure to accept the Commission's methodology reduced estimated  
19 workshare cost savings by an average of 3.17 cents or 49% (as shown in Table 6), an  
20 extraordinary reduction given that the USPS derived cost savings average just 6.47  
21 cents. The failure to follow the Commission's established methodology explains why  
22 the First-Class workshare discounts proposed in the S&A *appear* to be greater than the  
23 cost savings.

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<sup>12</sup> APWU witness Riley seems concerned that on occasion, workshare mailers provide prebarcodes that are not readable by Postal Service equipment. Tr 12/4849. To the extent that this is a problem, the real world cost impact is reflected by actual Postal costs used in the workshare cost savings analysis. For the same reason, his argument (Tr 12/4849-50) that "actual" avoided costs are less than the USPS' "should cost" estimates of avoided costs is simply wrong. In fact, just the opposite is true.

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**Table 6**  
**Impact on Individual Rate Categories of Miller's Revisions to the**  
**PRC Methodology for Deriving First-Class Workshare Cost Savings**  
**(Cents)**

<b>First-Class Workshare Rate Category</b>	<b>PRC R2000-1 Methodology Cost Savings</b>	<b>Change Due To Miller's Revisions</b>	<b>USPS Cost Savings</b>	<b>% Change Due to Miller's Revisions</b>
Mixed AADC	7.99	-2.90	5.09	-57%
AADC	9.08	-3.11	5.97	-52%
3-Digit	9.44	-3.16	6.28	-50%
5-Digit	10.71	-3.29	7.42	-44%
Weighted Average	9.64	<b>-3.17</b>	<b>6.47</b>	-49%

*Sources: Exhibit MMA-2A, Library Reference USPS-LR-J-60*

6           In this case, USPS witness Miller rejected three aspects of the Commission's  
7 Docket No. R2000-1 methodology for deriving First-Class workshare cost savings.  
8 First, Mr. Miller used CRA costs developed under the Postal Service's proposed cost  
9 attribution methodology rather than the Commission's cost attribution methodology.  
10 Second, without an acceptable explanation, he eliminated two cost pools that the  
11 Commission determined were workshare-related but fixed. Finally, he rejected the  
12 Commission's use of non-automation presorted letters as a proxy for unit Bulk Metered  
13 Mail (BMM) delivery costs, even though the Postal Service relied upon this assumption  
14 in Docket No. R97-1 and Mr. Miller accepted it without question in Docket No. R2000-1.  
15 Table 7 shows the individual cost impacts for each of these three revisions.



Table 7

**Specific Unit Cost Impacts of USPS Witness Miller's Revisions  
to the Commission's Methodology for Deriving  
First-Class Workshare Cost Savings  
(Cents)**

<b>First-Class Workshare Rate Category</b>	<b>PRC R2000-1 Methodology Cost Savings</b>	<b>Impact of Using USPS Cost Method</b>	<b>Impact of Eliminating Cost Pools</b>	<b>Impact of Assumption on Delivery Costs</b>	<b>USPS Cost Savings</b>
Mixed AADC	7.99	-0.89	-0.16	-1.86	5.09
AADC	9.08	-1.09	-0.16	-1.86	5.97
3-Digit	9.44	-1.14	-0.16	-1.86	6.28
5-Digit	10.71	-1.27	-0.16	-1.86	7.42
Weighted Average	<b>9.64</b>	<b>-1.15</b>	<b>-0.16</b>	<b>-1.86</b>	<b>6.47</b>

Source: Exhibit MMA-2A

As shown in Table 7, adherence to the Commission's R2000-1 methodology for deriving First-Class workshare cost savings would have resulted in an average automation cost savings of 9.64 cents. Mr. Miller purported to find that the average savings should be only 6.47 cents. The difference of 3.17 cents worth of cost savings has been lost as a result of Mr. Miller's three revisions. On average, 1.15 cents worth of savings was "lost" because Mr. Miller rejected the Commission's cost attribution methodology in favor of the Postal Service's preferred cost attribution methodology; another .16 cents was "lost" because he eliminated two cost pools, even though the two cost pools clearly show that workshare letters cost less than metered letters; and 1.86 cents was "lost" when Mr. Miller decided to use the delivery costs for Non-automation Machinable Mixed AADC (NAMMA) letters as a proxy for BMM letters.

It is apparent that had Mr. Miller refrained from making revisions to the Commission's R2000-1 methodology, APWU's complaint – that the discounts are higher than the cost savings – would be moot. However, Mr. Miller did make changes that significantly reduced estimated cost savings, and it is incumbent upon him to provide proof that his revisions are understandable, accurate, and reasonable. Even a cursory

1 look at the three methodological changes proposed by USPS witness Miller indicates  
2 that he failed to provide that proof.

### 3 **1. USPS Cost Attribution Methodology**

4 This is at least the third consecutive major rate case in which the Postal Service  
5 has proposed its own version of attributable costs. The major difference between the  
6 Postal Service's attributable costs, compared to the Commission's, is that the Postal  
7 Service assumes that labor costs vary less than 100% with changes in volume. The  
8 choice of a cost attribution method has a significant impact on the derivation of  
9 workshare cost savings. As shown in Table 8, if all other factors are kept constant, Mr.  
10 Miller's reliance upon CRA costs developed using the USPS cost attribution  
11 methodology reduced derived cost savings by 18% on average.

12 **Table 8**  
13  
14 **Specific Impact of Miller's Reliance on CRA Costs Developed**  
15 **Using the USPS Cost Attribution Methodology**  
16 **(Cents)**

First-Class Workshare Rate Category	Impact of Using USPS Cost Attribution Method	% Change
Mixed AADC	-0.9	-17%
AADC	-1.1	-18%
3-Digit	-1.1	-18%
5-Digit	-1.3	-17%
Weighted Average	-1.2	-18%

Source: Exhibit MMA-2A

17 USPS witness Miller provides no reason for rejecting the Commission's  
18 attributable cost methodology. Instead, he relies on other witnesses' testimonies. In  
19 the past, I have urged the Commission to reject the Postal Service's attributable cost  
20 methodology for two major policy reasons.<sup>13</sup> First, the Postal Service's methodology  
21 reduces the pot of postal costs that are attributed, either directly or indirectly, to the

<sup>13</sup> See Docket No. R2000-1, Exhibit MMA-T-1A at 15-16.

1 subclasses and services of mail. In this case, the Commission's method attributes \$3.7  
2 billion more than the Postal Service's methodology. Reducing attributable costs  
3 increases the proportion of total costs that are institutional and opens the door for cross  
4 subsidization among subclasses. I am particularly concerned that if the USPS'  
5 restrictive views on cost attribution were to prevail, the Postal Service would impose a  
6 disproportionately large share of institutional costs on First-Class letters in future rate  
7 cases.

8 Second, the concept of labor costs varying less than 100% with volume tends to  
9 reduce the measurement of workshare cost savings. Since the Commission has  
10 consistently rejected this concept, I am confident that the Commission will again utilize  
11 its own 100% volume variability cost attribution method. Accordingly, the Postal  
12 Service's estimation of workshare cost savings should be increased by the unit cost  
13 amounts shown in Table 8 above.

## 14 **2. Elimination of Relevant Cost Pools**

15 USPS witness Miller explains that he accepted all of the Commission's  
16 adjustments to his Docket No. R2000-1 workshare cost derivation methodology except  
17 for the classification of two cost pools: "1SUPP\_F1" and "1SUPP\_F4". Mr. Miller claims  
18 that these cost pools, which relate to union activities, Quality of Working Life programs,  
19 travel time for training, and administrative activities, are "not affected by whether an  
20 individual mail piece is presorted and/or prebarcoded." See USPS-T-22 at 10.  
21 Accordingly, he re-classified these costs as "non-worksharing related fixed," thereby  
22 removing them from the cost savings analysis.

23 The impact of Mr. Miller's change from the Commission's classification of these  
24 two cost pools varies depending upon which cost attribution methodology is used. If  
25 these cost pools are included as "workshare-related, fixed," as the Commission  
26 classified them in Docket No. R2000-1, then Mr. Miller's derived workshare cost savings  
27 increases by .34 cents for each rate category under the Service's cost attribution  
28 methodology, and .16 cents for each rate category under the Commission's cost  
29 attribution methodology.

30 The cost differences in these two cost pools, between metered letters and  
31 workshare letters, cannot be explained. Although Mr. Miller claims that worksharing is

1 not the reason for the cost difference, he still cannot explain why these cost pools are  
2 consistently greater for metered letters than for worksharing letters. When he was  
3 specifically asked for such an explanation, he failed to provide an answer. USPS  
4 witness Smith attempted to answer the original question posed to Mr. Miller, but his  
5 answer also fails to provide necessary evidence to overturn the Commission's decision  
6 to conclude that the two cost pools are related to worksharing. Mr. Smith stated:

7           The labor costs per piece for these two cost pools for the  
8           categories of metered letters and automation letters are  
9           dependent on the distribution of labor cost in MODS mail  
10          processing and MODS window costs for the metered letters  
11          and automation letters categories. As explained by witness  
12          Van-Ty-Smith, USPS-T-I 3 at page 15, the distribution key  
13          used for these two cost pools is the subclass shares of  
14          volume-variable costs in the supported operations. The  
15          operations supported by the work associated with these two  
16          cost pools are MODS mail processing and MODS window  
17          service operations. (Response to MMA/USPS-T22-7C)

18          Mr. Smith's explanation does not prove that the cost differences are not tied to  
19          worksharing. Worksharing letters, by definition, do not incur window service costs. To  
20          the extent that the cost differences between workshare and metered mail are related to  
21          mail processing and window service operations, then worksharing cannot properly be  
22          ruled out as a causative factor for the cost differences exhibited in these two cost pools.  
23          It is, and still remains, the Postal Service's burden to explain why the costs in these  
24          pools are consistently different for automation and metered letters. Cost causation  
25          within the Postal Service is very complex and not always obvious or consistent with  
26          one's expectations. Without a reasonable explanation that the differences are **not**  
27          caused by worksharing, the cost pools should be included as part of the workshare cost  
28          savings analysis.<sup>14</sup>

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<sup>14</sup> There is one other cost pool that exhibits a significant cost difference between metered and automation letters that the Postal Service has deemed as non-workshare related and fixed. I urge the Commission to require the Postal Service to provide a reasonable explanation as to why the cost pool "nonMODS MISC" consistently exhibits a significant difference between metered and automation letters, and why worksharing has nothing to do with that difference.

### 3. Estimation of Delivery Cost Savings

As shown in Table 7, the most dramatic impact of USPS witness Miller's changes to the Commission's R2000-1 methodology, representing 1.86 cents or 59% of the total cost savings "lost," concerns his assumption regarding workshare cost savings related to delivery. In this case, he abandoned his own prior position that BMM and non-automation presorted delivery costs are similar. That assumption was first introduced by USPS witness Hatfield in Docket No. R97-1. It is an assumption that Mr. Miller himself considered and adopted in Docket No. R2000-1 and one that the Commission accepted in both proceedings.

There are several reasons why Mr. Miller's decision to use non-automation, machinable mixed AADC (NAMMA) letter delivery costs as a proxy for BMM letters is not reasonable. First, this very significant methodological change reduced estimated BMM delivery unit costs by more than 25%, from 5.479 cents in Docket No. R2000-1 to 4.083 cents in this case. In view of the fact that this change in methodology affects **50 billion** pieces, the Postal Service must justify such a significant change with convincing analyses and an in-depth explanation. As USPS witness Mr. Miller confirmed (Response to MMA/USPS-T22-49G), however, there is no such explanation in his Direct Testimony:

Q. Please confirm that the only explanation that you provide in your Direct Testimony and Library References for changing the assumption from the last case concerning BMM delivery costs is found on page 20 of your Direct Testimony. There you state:

In this docket, I have refined that assumption and have assumed that delivery unit costs for BMM letters are the same as the delivery unit costs for First-Class machinable mixed AADC nonautomation presort letters.

If you cannot confirm, please provide all other record citations where you explain the rationale for your "refined" assumption.

A. Confirmed.

For this reason alone, the Postal Service has failed to provide any factual or logical reason to overturn the Commission's accepted assumptions regarding delivery cost savings due to worksharing.

1 A second very important reason why the Commission should reject the use of  
2 NAMMA delivery costs as a proxy for BMM delivery costs is that Mr. Miller does not  
3 know what the delivery costs are for NAMMA letters. These delivery costs were derived  
4 by USPS witness Schenk. The record shows that she used an inappropriate and  
5 inaccurate methodology for de-averaging presorted letter delivery costs into the 15  
6 subcategories of workshare letters, one of which was NAMMA letters -- Mr. Miller's  
7 proxy mailpiece for deriving delivery cost savings.

8 The errors in Dr. Schenk's methodology are described fully in Exhibit MMA-4A,  
9 entitled "Technical Discussion of Workshare Delivery Cost Savings." In general terms,  
10 however, Dr. Schenk's derivation of de-averaged delivery costs relied upon **total**  
11 originating letters processed and delivered by the Postal Service. The basic problem  
12 with using total volumes is that they included volumes, such as letters delivered to post  
13 office boxes, that did not incur delivery costs. Therefore, Dr. Schenk's use of total  
14 volumes diluted and distorted the results she showed and provided to USPS witness  
15 Miller.<sup>15</sup>

16 Dr. Schenk admitted that her calculations were based on **total** volumes that  
17 included pieces that did not incur city carrier costs (TR 5/833) and she conceded that  
18 that it would be "better" to use city carrier volumes rather than total volumes (TR 5/835).  
19 Accordingly, the unit delivery cost figures that she provided to Mr. Miller were wrong and  
20 should be rejected by the Commission.

21 Fortunately, the record does contain accurate delivery volume information. MMA  
22 requested and received from the Postal Service the actual volumes delivered by city  
23 carriers. Using the volumes that **actually** incurred delivery costs, I was able to re-  
24 construct the Postal Service's delivery cost analysis. Table 9 compares the corrected  
25 delivery unit costs with those derived by Dr. Schenk.

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<sup>15</sup> Dr. Schenk computed the average delivery cost for all originating letters when she wanted to know the average delivery cost incurred to deliver a letter. The distinction is significant.

**Table 9**

**Comparison of the Postal Service's Original and Corrected  
Unit Delivery Costs For First-Class Letters  
(Cents)**

<b>First-Class Letter Category</b>	<b>USPS Unit Delivery Cost Per <i>Originating</i> Letter</b>	<b>Corrected Unit Delivery Cost Per <i>Delivered</i> Letter</b>
First-Class Single Piece	<b>6.04</b>	<b>8.96</b>
First-Class Workshare		
<b>Total Non-Automation</b>	<b>5.94</b>	<b>6.17</b>
Auto Mixed AADC	<b>4.16</b>	<b>4.90</b>
Auto AADC	<b>4.01</b>	<b>4.80</b>
Auto 3-Digit Letters	<b>3.98</b>	<b>4.77</b>
Auto 5-Digit Letters CSBCS/Man Sites	<b>6.16</b>	<b>6.32</b>
Auto 5-Digit Letters Other Sites	<b>2.89</b>	<b>4.00</b>
<b>Total 5-Digit Letters</b>	<b>3.79</b>	<b>4.23</b>
Auto CR Letters	<b>6.06</b>	<b>6.25</b>
<b>Total Automation Letters</b>	<b>3.94</b>	<b>4.78</b>
<b>Total Workshare Letters</b>	<b>4.17</b>	<b>4.91</b>

*Sources: Library References USPS-LR-J-117 and MMA-LR-J-2*

Table 9 demonstrates how misleading the results of Dr. Schenk's original delivery cost study were. The Schenk study underestimated delivery costs for single piece letters by almost 3 full cents: 8.96 cents – 6.04 cents = 2.92 cents. The Schenk study also understated the cost of workshare letters, but not by as much: 4.91 cents – 4.17 cents = .74 cents.

These differences in measured costs are crucial to an understanding of delivery cost causation and, in particular, the impact that worksharing has on such costs. Neither Mr. Miller nor Dr. Schenk studied delivery costs in sufficient detail to determine the cost drivers that affect delivery costs. And they did not do so, indeed could not do so, because the flaws in Dr. Schenk's delivery cost analysis made it appear that the cost differences between single piece and workshare letters were minimal.

1 As discussed in Exhibit MMA-4A, worksharing has a very significant impact on  
2 delivery cost causation. This important fact was missed by Dr. Schenk and ignored by  
3 Mr. Miller because of Dr. Schenk's focus on average delivery costs per originating letter  
4 including letters not delivered, rather than the average cost incurred to delivery a letter.  
5 Consequently, Mr. Miller's unsupported assumption that delivery costs for a worksharing  
6 rate category, such as NAMMA letters, can be used as a proxy for a non-worksharing  
7 rate category, such as BMM letters cannot hold up.<sup>16</sup>

8 Worksharing reduces delivery costs, regardless of whether those letters are  
9 delivery point sequenced (DPSed) or not (nonDPSed). The evidence that the Postal  
10 Service provided in response to MMA's interrogatory supports each of these points as  
11 discussed in detail in Exhibit MMA-4A. Consequently, the Commission should  
12 recognize such cost savings as part of the overall workshare cost savings analysis.

13 In order to isolate workshare delivery cost savings properly, the proxy for the  
14 BMM benchmark should not be a workshare category such as NAMMA. The  
15 Commission can and should use metered letters as a proxy for BMM in order to derive  
16 workshare delivery cost savings.<sup>17</sup> Using single piece metered letters as the proxy is  
17 reasonable since I can think of no reason why the manner in which metered letters are  
18 brought to the outgoing post office should have any bearing on the delivery costs. More  
19 importantly, such an assumption uses a non-worksharing rate category against which to  
20 measure the cost savings particularly as they relate to worksharing. This contrasts with  
21 Mr. Miller's methodology which implicitly disregards the clear evidence that worksharing  
22 lowers delivery costs.<sup>18</sup>

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<sup>16</sup> In fact, as I discuss in more detail below, such letters are probably a very poor proxy for BMM letters. A far better proxy would be single piece metered letters, which Mr. Miller uses for estimating mail processing costs.

<sup>17</sup> At the time Mr. Miller chose NAMMA, there was no record information concerning delivery costs for single piece metered letters. However, in response to an MMA interrogatory, Dr. Schenk provided new data that allows the delivery cost for single piece letters to be de-averaged according to the type of indicia. Tr 5/649-50. Therefore, it is now possible to derive unit delivery costs separately for First-Class single piece letters that are stamped, metered and have postage paid by "other" indicia.

<sup>18</sup> Postal Service data show that when letters are nonDPSed, non-workshare single piece letters cost 6.36 cents to delivery in the test year while workshare presorted letters cost only 4.11 cents. That is a savings of 2.25 cents per piece due to worksharing. When letters are DPSed in the incoming secondary operation, workshare letters also cost less to deliver than non-workshare letters. See Exhibit MMA-4A at 5-7.



Table 10 summarizes the delivery unit cost savings the Commission should use. This analysis corrects the Postal Service's flawed delivery cost study and uses a benchmark that much more accurately reflects worksharing cost savings that relate specifically to delivery cost causation.<sup>19</sup>

**Table 10**  
**Summary of MMA Proposed Delivery Cost Savings**  
**Due Specifically to Worksharing**  
**(Cents)**

First-Class Letter Category	Derived Workshare-Related TY Unit Delivery Cost	Delivery Workshare-Related TY Unit Delivery Cost Savings
First-Class Single Piece Metered Letters (without collection costs) 1/	6.78	
First-Class Workshare		
Auto Mixed AADC	4.90	1.88
Auto AADC	4.80	1.98
Auto 3-Digit Letters	4.77	2.01
Auto 5-Digit Letters CSBCS/Man Sites	6.32	
Auto 5-Digit Letters Other Sites	4.00	
Total 5-Digit Letters	4.23	2.55
Auto CR Letters	6.25	0.07

1/ Estimate for BMM unit delivery cost

Source: Library Reference MMA-LR-J-2

#### IV. OTHER FACTORS THAT AFFECT DISCOUNTS

There are several worksharing activities other than those that are captured by the USPS or Commission methodologies, that do affect cost savings and should be considered in assessing whether the discounts proposed in the S&A are fair and equitable. In the last rate proceeding, I urged the Commission to include in the derivation of workshare cost savings, additional costs that were either saved or avoided because workshare mailers, **and only workshare mailers**, are required to enclose properly designed and prebarcoded reply envelopes in their outgoing envelopes.

<sup>19</sup> The unit delivery cost savings shown in Table 10 are reflected in MMA's total workshare cost savings shown in Table 2 above.

1 Similarly, I urged the Commission to give workshare mailers some tangible recognition  
2 for the substantial expenses they incur, and the USPS saves, as a result of the  
3 Move/Update requirements. Finally, I pointed out that the rates workshare mailers pay  
4 include window service costs even though they are not responsible for the incurrence of  
5 those costs.<sup>20</sup> I did not include the costs avoided or saved from these features of  
6 worksharing in my derivation of workshare cost savings, but urged the Commission to  
7 take these factors into account as part of the ratemaking process.

8 An additional worksharing activity involves the Postal Service's rules and  
9 requirements that dictate rigorous manufacturing and design standards that workshare  
10 letters must meet in order to qualify for discounted rates. These requirements and the  
11 USPS enforcement system currently in place act as a very important insurance policy to  
12 the Postal Service and, importantly, an insurance policy for which it pays no premium.<sup>21</sup>  
13 Postal regulations insure that only letters with the most favorable physical qualities can  
14 qualify for discounted rates. As a result of these requirements, automation letters are  
15 machinable, readable and easily processed by automated equipment. To maintain this  
16 very efficient and low-cost mail stream, the Postal Service regulates every aspect of a  
17 letter's physical qualities with an entire handbook of detailed specifications.

18 Such a practice by the Postal Service has a profound impact upon its customers.  
19 In effect, the Postal Service's myriad mailpiece standards and requirements have  
20 created the need for mailers to staff and train new specialists who are dedicated to  
21 understanding and complying with specifications that apply to the design and  
22 preparation of workshare letters. While the cost to train and maintain such specialists  
23 is considerable, workshare discounts do not recognize or give mailers any credit for the  
24 extraordinary time and expense they devote to meeting these requirements.

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<sup>20</sup> I noted that the Postal Service incurs more than \$700 million annually to provide window services.

<sup>21</sup> Mailers' compliance with move update requirements also serve as an insurance policy to the Postal Service, for which it pays no premium. Similarly, insertion of pre-approved prebarcoded return letters provide added benefits to the Postal Service in the form of low-cost/high profit additional volumes, for which workshare mailers receive no credit.

1       The design of a workshare mailpiece has become an increasingly time-  
2 consuming and expensive proposition for mailers who try to comply with complex and  
3 ever-changing regulations. To properly administer mailpiece design guidelines, the  
4 Postal Service has established the Mailpiece Quality Control Program. Through this  
5 program, the Postal Service designs and publishes training manuals that are sold to  
6 interested industry concerns. Large workshare mailers, such as MMA members, spend  
7 hundreds of thousands of dollars a year just to train initially and then keep their  
8 employees up to date with the many guidelines that regulate a qualifying workshare  
9 letter. These mailers teach specialized courses that train their own employees, clients  
10 **and even postal service personnel.** To standardize this growing industry further, the  
11 Postal Service provides a test to certify individuals who have mastered the intricacies of  
12 mailpiece design. Passing this rigorous test, which is akin to taking a professional  
13 exam, is necessary to qualify as an "MQC Specialist". MQC specialists are highly  
14 regarded within the mailing industry and are often asked to make important decisions  
15 regarding a proposed mailpiece design at various stages of the project.

16       I completed an introductory course<sup>22</sup> last year and can confirm that the material is  
17 both protracted and complex. As I learned, the Postal Service follows a "no tolerance"  
18 policy such that if one of its many rules that police the design of a workshare letter is  
19 violated, an entire mailing will be either held up or simply rejected. This can be  
20 particularly burdensome if, for example, a letter is designed to be 11.5 inches wide, but  
21 some envelopes are cut 11.51 inches wide. Such a mailing would in all probability be  
22 rejected by the Postal Service and have to be mailed at the workshare flat rate rather  
23 than the letter rate. Therefore, it is extremely important for newly designed mail pieces  
24 to comply with every detailed item as described in the Domestic Mail Manual and  
25 training manuals published under the Mailpiece Quality Control Program.

26       The resulting cost savings directly attributed to mailpiece design regulations is  
27 difficult, if not impossible to measure. Other categories of letters that are not subjected  
28 to mailpiece design issues, such as BMM, are also very clean and machinable. There  
29 may not be any true difference in the cost of processing either type of mail that is

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<sup>22</sup> A copy of the training manual used for the course that I took is provided as Library Reference MMA-LR-J-4.

1 traceable to the mailpiece design. However, it seems unfair to completely ignore the  
2 hoops through which workshare mailers jump simply to make sure their mail qualifies for  
3 discounted rates. As such, I urge the Commission to consider the effort put forth by the  
4 workshare mailing community as part of the decision-making process when  
5 recommending the workshare discounts in the S&A for First-Class mail.

## 6 **V. CONCLUSION**

7 The Postal Service faces challenging times. As a result of the September 11  
8 tragedy and the anthrax attacks, the Postal Service had to make a choice between  
9 proceeding with the litigation of this case or settling. After several weeks of arduous  
10 negotiations, the Postal Service chose to settle the case. In return for slightly lower test  
11 year revenues than it originally requested, the Postal Service has the certainty that it will  
12 be able to implement the higher S&A rates three months sooner. For this reason, both  
13 the Postal Service and its most profitable customers, First-Class workshare mailers,  
14 believe that the Commission should adopt the S&A.

15 APWU is the only party to oppose the S&A. It has relied upon USPS witness  
16 Miller's derived workshare cost savings even though they represent significant  
17 departures from the Commission's methodology. Certainly Mr. Riley should have  
18 recognized that the Postal Service's cost savings were controversial, to say the least.

19 I strongly urge the Commission to either rely on its own methodology from the  
20 last case, or that same methodology with the corrections that I propose based on the  
21 record in this case. Accordingly, the Commission should not adopt the workshare  
22 discounts proposed by APWU witness Reilly and should find that it is not fair to single  
23 out one rate category and charge it up to an extra \$1.4 billion for the test year. Instead,  
24 the Commission should adopt the entire rate package proposed by the S&A.

### **QUALIFICATIONS OF RICHARD BENTLEY**

Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates and operations. As a witness on behalf of the Officer of the Commission, Mr. Bentley testified before the Postal Rate Commission in five separate proceedings. In Docket No. MC73-1, Mr. Bentley filed rebuttal testimony concerning the Postal Service's bound printed matter proposal.

In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals to establish local First-Class rates and to eliminate third-class single piece as a separate subclass. With regard to the latter, it is interesting to note that 20 years later, the Commission has eliminated this subclass as one of its recommendations in Docket No. R97-1.

In Docket No. R77-1, Mr. Bentley presented proposed rates for all classes of mail and services, including the projected volumes that would result from those rates. He also analyzed the rates proposed by the Postal Service and critiqued the volume projections presented in support of its proposals.

In Docket No. MC78-1, the Postal Service proposed to restructure parcel post rates by asking the Commission to establish new rates for parcel post mailed in bulk and for a parcel post nonmachinable surcharge. Mr. Bentley presented two pieces of testimony in that docket--one concerned with the rate aspects of the Postal Service's proposal and one concerned with the parcel post volume projections.

In 1979, Mr. Bentley left the Postal Rate Commission to become a senior program engineer for Systems Consultants, Inc. (which became Syscon Corporation and is not part of Logicon), a national consulting firm. There, Mr. Bentley's responsibilities included the analysis and estimation of life cycle costs required to research, develop, manufacture, and maintain various weapon system programs for the Department of Defense. He developed cost estimating relationships and completed a computerized model for estimating future weapon system program costs.

In addition, Mr. Bentley testified before the Postal rate Commission in Docket No. R80-1 concerning presorted First-Class mail rates and second-class within county rates.

After leaving Syscon in 1981, Mr. Bentley started his own company, Marketing Designs, Inc., which provides specialized marketing services to various retail, commercial, and industrial concerns as well as consulting services to a select group of clients.

In Docket No. R84-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers and the American Retail Federation in favor of an increased

First-Class presort discount. At that time Mr. Bentley presented a methodology for estimating cost differences between processing First-Class single piece and presorted letters that eventually become the foundation for the Commission's "Appendix F" methodology for supporting First-Class presorted discounts.

In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package System concerning a proposed special rate increase for parcel post. In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley recommended and supported various rate discount proposals for presorted First-Class mail, and a lower fee for "BRMAS" business reply mail.

In Docket No. R94-1, Mr. Bentley testified on behalf of Major Mailers Association with respect to several issues that concerned First-Class rates. These included the relationship between the proposed cost coverages for First and third class, the rates for First-Class incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery carrier out-of-office cost methodology. In addition, Mr. Bentley worked on behalf of Brooklyn Union Gas to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected, although he did not file any formal testimony.

In Docket Nos. MC95-1 and MC96-3, Mr. Bentley again represented Major Mailers Association. In Docket No. MC95-1 he endorsed the overall classification concept proposed by the Postal Service for First-Class Mail and suggested that the First-Class second and third ounce rate be reduced for letter-

shaped pieces. In Docket No. MC96-3, Mr. Bentley compared the attributable costing approaches between the Postal Service and Commission and asked that the Commission require the Postal Service to provide the impact of proposed changes utilizing established attributable cost methodologies. This testimony was the impetus for Docket No. RM97-1 and resulted in the Commission amending Rule 54(a)(1) to require the Postal Service to make such a cost presentation.

In Docket No. R97-1, Mr. Bentley represented both Major Mailers Association and the Brooklyn Union Gas Company with two separate pieces of testimony. For Major Mailers, he recommended that the Commission reject the Postal Service's newly proposed cost attribution methodology, increase First-Class discounts and offer a reduced rate for 2-ounce First-Class letters. For Brooklyn Union, he endorsed the Postal Service's Prepaid Reply Mail concept, but asked the Commission to alter it slightly with two modifications.

In the last Omnibus rate case, Docket No. R00-1, Mr. Bentley again appeared as a witness for Major Mailers Association and KeySpan Energy, previously known as Brooklyn Union Gas. In that docket, Mr. Bentley showed the workshare cost savings were greater than those derived by the Postal Service, and he recommended workshare discounts that reflected those cost savings. He also provided the Commission with the means for recommending a two-tiered QBRM fee based on the volume received. This proposal was originally suggested by the Postal Service, but its supporting analyses were so

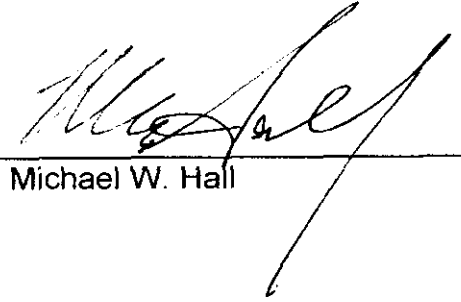


flawed that ultimately the Commission was forced to reject them in favor of Mr. Bentley supporting evidence.

In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University. The following year Mr. Bentley was awarded a Master's degree in Business Administration from Cornell's graduate School of Business and Public Administration (now the Johnson Graduate School of Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu Engineering Honor Societies.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document, by First-Class  
Mail, upon the participants in this proceeding.



Michael W. Hall

Round Hill, VA  
February 20, 2002

## Exhibit MMA-1A

Test Year Finances Under USPS, Settlement  
And APWU Proposed Rates

EXHIBIT MMA-1A  
Page 1A

Description	Vol Variable Cost (1A)	% of Vol Var Costs (1A) / Total (1A) (2A)	Revenue (3A)	Cost Coverage (3A) / (1A) (4A)	Contrib To Oth Costs (3A) - (1A) (5A)	% of Other Costs (5A) / Total (5A) (6A)	Mark Up (4A) - 1 (7A)	Mark Up Index (7A) / Total (7A) (8A)	Mail Volume (9A)	Unit Revenue (3A) / (9A) (10A)	Unit Cost (1A) / (9A) (11A)	Unit Contrib (10A) - (11A) (12A)	Proposed Increase (10A) / (10B) (13A)	Volume Variable Cost Without Contingency (1A) / 1.03 (14A)	Contingency (1A) - (14A) (15A)	Proposed Increase in Revenue Contribution (5A) - (5B) (16A)	% of Proposed Increase in Revenue Contribution (16A) / Total (16A) (17A)
First-Class Mail																	
Single-Piece Letters	12,425,858	29.9%	21,878,353	176.1%	9,452,495	28.96%	76.1%	95.97%	46,865,402	0.4668	0.2651	0.2017	7.5%	12,063,940	361,918	1,327,836	25%
Presort and Automation Letters	5,436,371	13.1%	15,990,746	294.1%	10,554,375	32.34%	194.1%	247.48%	51,322,082	0.3116	0.1059	0.2056	9.3%	5,278,030	158,341	1,353,355	26%
Total Letters	17,862,230	42.9%	37,869,099	212.0%	20,006,869	61.30%	112.0%	142.78%	98,187,484	0.3857	0.1818	0.2038	8.0%	17,341,970	520,259	2,681,190	51%
Single-Piece Cards	559,631	1.3%	630,896	112.7%	71,065	0.22%	12.7%	16.19%	2,824,412	0.2403	0.2132	0.0271	9.7%	543,331	16,300	54,328	1%
Presort and Automation Cards	145,835	0.4%	488,937	335.3%	343,102	1.05%	235.3%	299.91%	2,842,287	0.1850	0.0552	0.1299	8.6%	141,587	4,248	6,386	0%
Total Cards	705,466	1.7%	1,119,833	158.7%	414,167	1.27%	58.7%	74.84%	5,266,679	0.2128	0.1339	0.0786	9.7%	684,918	20,548	60,714	1%
Total First-Class Mail	18,567,695	44.8%	38,988,732	210.0%	20,421,037	62.57%	110.0%	140.20%	103,454,163	0.3769	0.1795	0.1974	8.2%	18,026,888	540,807	2,741,905	52%
Priority Mail	3,567,868	8.6%	6,200,084	173.8%	2,632,216	8.07%	73.8%	94.04%	1,178,757	5.2598	3.0268	2.2330	13.5%	3,463,950	103,918	573,994	11%
Express Mail	494,779	1.2%	1,133,705	229.1%	638,926	1.96%	129.1%	164.61%	69,911	18.2164	7.0773	9.1391	9.4%	480,368	14,411	36,708	1%
Mailgrams	639	0.0%	1,131	177.1%	492	0.00%	77.1%	98.29%	2,725	0.4150	0.2343	0.1807	0.0%	620	19	(5)	0%
Periodicals		0.0%															
Within County	78,780	0.2%	82,526	104.8%	3,746	0.01%	4.8%	6.06%	853,535	0.0967	0.0923	0.0044	1.7%	76,485	2,295	1,248	0%
Outside County	2,313,124	5.6%	2,511,600	108.6%	198,476	0.61%	8.6%	10.94%	9,108,974	0.2757	0.2539	0.0218	10.4%	2,245,751	67,373	232,916	4%
Total Periodicals	2,391,903	5.7%	2,594,126	108.5%	202,223	0.62%	8.5%	10.78%	9,962,509	0.2604	0.2401	0.0203	10.0%	2,322,236	89,667	234,165	4%
Standard Mail (A)																	
Regular			11,042,480						47,296,185	0.2335	0.0000	0.2335	7.8%				
Nonprofit			1,669,063						11,882,923	0.1405	0.0000	0.1405	6.6%				
Total Regular & Nonprofit	8,689,931	20.9%	12,711,543	146.3%	4,021,612	12.32%	46.3%	58.99%	59,179,108	0.2148	0.1468	0.0680	7.5%	8,436,826	253,105	837,929	16%
Enhanced Carrier Route			5,555,656						33,125,689	0.1677	0.0000	0.1677	6.2%				
Nonprofit ECR			325,210						3,236,397	0.1005	0.0000	0.1005	6.5%				
Total ECR & NPECR	2,700,570	6.5%	5,880,866	217.8%	3,180,296	9.74%	117.8%	150.12%	36,362,086	0.1617	0.0743	0.0875	6.1%	2,621,913	78,657	271,830	5%
Total Standard Mail (A)	11,390,501	27.4%	18,592,409	163.2%	7,201,908	22.07%	63.2%	80.60%	95,541,194	0.1946	0.1192	0.0754	7.1%	11,058,739	331,762	1,109,759	21%
Standard Mail (B)																	
Parcel Post	1,040,198	2.5%	1,202,568	115.6%	162,370	0.50%	15.6%	19.90%	371,533	3.2368	2.7997	0.4370	6.5%	1,009,901	30,297	88,221	2%
Bound Printed Matter	542,173	1.3%	695,754	128.3%	153,581	0.47%	28.3%	36.11%	588,557	1.1821	0.9212	0.2609	9.1%	526,382	15,791	54,910	1%
Media Mail			270,795						158,641	1.7070	0.0000	1.7070	4.0%				
Library Rate			49,972						27,047	1.8476	0.0000	1.8476	3.3%				
Total Media & Library	279,039	0.7%	320,767	115.0%	41,728	0.13%	15.0%	19.06%	185,688					270,912	8,127	11,350	0%
Total Standard Mail (B)	1,861,411	4.5%	2,219,089	119.2%	357,678	1.10%	19.2%	24.49%	1,145,778	1.9368	1.6246	0.3122	5.1%	1,807,195	54,822	154,480	3%
Penalty						0.00%			353,484								0%
Free-for-the-Blind	38,344	0.1%	0	0.0%	(38,344)	-0.12%			46,859	0.0000	0.8183	-0.8183		37,227	1,117	(54)	0%
Total Domestic Mail	38,313,140	92.1%	69,729,276	182.0%	31,416,136	96.26%	82.0%	104.53%	211,755,380	0.3293	0.1809	0.1484	7.8%	37,197,223	1,115,917	4,850,952	92%
International Mail	1,580,532	3.8%	1,917,956	121.3%	337,424	1.03%	21.3%	27.21%	1,205,553	1.5909	1.3110	0.2799	8.4%	1,534,497	46,035	131,137	2%
Total All Mail	39,893,672	95.9%	71,647,232	179.6%	31,753,560	97.29%	79.6%	101.46%	212,960,933	0.3364	0.1873	0.1491	7.7%	38,731,720	1,161,952	4,982,089	95%
Special Services																	
Registry	79,573	0.2%	98,550	123.8%	18,977	0.06%	23.8%	30.40%	10,331	9.5393	7.7023	1.8369	7.2%	77,255	2,318	5,620	0%
Certified Mail	475,444	1.1%	696,629	146.5%	221,185	0.68%	46.5%	59.30%	302,882	2.3000	1.5697	0.7303	9.5%	461,596	13,848	73,006	1%
Insurance	108,721	0.3%	143,868	132.3%	35,147	0.11%	32.3%	41.21%	61,800	2.3280	1.7592	0.5687	9.3%	105,554	3,167	5,492	0%
COD	12,598	0.0%	17,700	140.5%	5,102	0.02%	40.5%	51.63%	3,100	5.7097	4.0638	1.6458	0.0%	12,231	367	(10)	0%
Money Orders	180,180	0.4%	303,574	168.5%	123,414	0.38%	68.5%	87.32%	229,607	1.3221	0.7846	0.5375	2.8%	174,913	5,247	6,833	0%
Stamped Cards	2,885	0.0%	3,408	118.1%	523	0.00%	18.1%	23.11%	170,412	0.0200	0.0169	0.0031	0.0%	2,801	84	(39)	0%
Stamped Envelopes	12,977	0.0%	16,102	124.1%	3,125	0.01%	24.1%	30.70%	400,000	0.0403	0.0324	0.0078	0.0%	12,599	378	(6)	0%
Box/Caller Service	659,700	1.6%	854,712	129.6%	195,012	0.60%	29.5%	37.68%	17,232	49.6003	38.2834	11.3169	14.5%	640,485	19,215	122,198	2%
Other	178,511	0.4%	459,831	257.7%	281,320	0.86%								173,312	5,199	71,284	1%
Total Special Services	1,710,568	4.1%	2,594,374	151.7%	883,806	2.71%	51.7%	65.86%						1,660,746	49,822	284,377	5%
Total Mail & Services	41,604,240	100.0%	74,241,606	178.4%	32,637,366	100.00%	78.4%	100.00%	212,960,933	0.3486	0.1954	0.1533	7.9%	40,392,468	1,211,774	5,266,466	100%
Other Costs	32,582,084																
Other Income														31,633,091	948,993		
Prior Years Loss Recovery	632,809		589,816														
Continuing Appropriations			30,857														
Investment Income			(21,948)											632,809	-		
Grand Total	74,819,133		74,840,331		21,198									72,658,366	2,160,767		
(1A),(3A)	(9A) Response to POIR No. 2, Question 6, Attachment Pages 3,4 (Revised 1/11/02)																
Exhibit USPS-28B, Revised (1/11/02)																	

**Summary of Estimated Test Year Before Rates Finances  
(USPS Cost Methodology)  
(Thousands Except For Units)**

EXHIBIT MMA-1A  
Page 1B

Description	Vol Variable	% of		Cost	Contrib To	% of	Mark Up	Mark Up	Mail	Unit	Unit	Unit	Volume Variable	
	Cost (1B)	Vol Var Costs (1B) / Total (1B) (2B)	Revenue (3B)	Coverage (3B) / (1B) (4B)	Oth Costs (3B) - (1B) (5B)	Other Costs (5B) / Total (5B) (6B)	Mark Up (4B) - 1 (7B)	Index (7B) / Total (7B) (8B)	Volume (9B)	Revenue (3B) / (9B) (10B)	Cost (1B) / (9B) (11B)	Contrib (10B) - (11B) (12B)	Cost Without Contingency (1B) / (10B) (13B)	Contingency (1B) - (13B) (14B)
First-Class Mail														
Single-Piece Letters	12,678,742	29.8%	20,803,401	164.1%	8,124,659	29.68%	64.1%	99.77%	47,899,389	0.4343	0.2647	0.1696	12,309,458	369,284
Presort and Automation Letters	5,421,560	12.7%	14,622,580	269.7%	9,201,020	33.62%	169.7%	264.23%	51,299,213	0.2850	0.1057	0.1794	5,263,650	157,910
Total Letters	18,100,302	42.5%	35,425,981	195.7%	17,325,679	63.30%	95.7%	149.03%	99,198,602	0.3571	0.1825	0.1747	17,573,109	527,193
Single-Piece Cards	575,141	1.3%	591,878	102.9%	16,737	0.06%	2.9%	4.53%	2,703,008	0.2190	0.2128	0.0062	558,389	16,752
Presort and Automation Cards	162,787	0.4%	499,503	306.8%	336,716	1.23%	206.8%	322.04%	2,930,767	0.1704	0.0555	0.1149	158,046	4,741
Total Cards	737,928	1.7%	1,091,381	147.9%	353,453	1.29%	47.9%	74.57%	5,633,775	0.1937	0.1310	0.0627	716,435	21,493
Total First-Class Mail	18,838,230	44.2%	36,517,362	193.8%	17,679,132	64.59%	93.8%	146.11%	104,832,377	0.3483	0.1797	0.1686	18,289,544	548,686
Priority Mail	3,767,050	8.8%	5,825,272	154.6%	2,058,222	7.52%	54.6%	85.07%	1,257,064	4.6340	2.9967	1.6373	3,657,330	109,720
Express Mail	543,045	1.3%	1,145,263	210.9%	602,218	2.20%	110.9%	172.66%	77,239	14.8275	7.0307	7.7968	527,228	15,817
Mailgrams	634	0.0%	1,131	178.4%	497	0.00%	78.4%	122.05%	2,725	0.4150	0.2327	0.1824	616	18
Periodicals														
Within County	78,840	0.2%	81,338	103.2%	2,498	0.01%	3.2%	4.93%	855,781	0.0950	0.0921	0.0029	76,544	2,296
Outside County	2,328,417	5.5%	2,293,977	98.5%	(34,440)	-0.13%	-1.5%	-2.30%	9,182,082	0.2498	0.2536	-0.0038	2,260,599	67,818
Total Periodicals	2,407,257	5.6%	2,375,315	98.7%	(31,942)	-0.12%	-1.3%	-2.07%	10,037,863	0.2366	0.2398	-0.0032	2,337,143	70,114
Standard Mail (A)														
Regular			10,484,194						48,424,553	0.2165			-	-
Nonprofit			1,573,085						11,943,287	0.1317			-	-
Total Regular & Nonprofit	8,873,596	20.8%	12,057,279	135.9%	3,183,683	11.63%	35.9%	55.86%	60,367,840	0.1997	0.1470	0.0527	8,615,142	258,454
Enhanced Carrier Route			5,351,517						33,873,784	0.1580			-	-
Nonprofit ECR			306,890						3,252,519	0.0944			-	-
Total ECR & NPECR	2,749,941	6.5%	5,658,407	205.8%	2,908,466	10.63%	105.8%	164.67%	37,126,303	0.1524	0.0741	0.0783	2,669,846	80,095
Total Standard Mail (A)	11,623,537	27.3%	17,715,686	152.4%	6,092,149	22.26%	52.4%	81.60%	97,494,143	0.1817	0.1192	0.0625	11,284,987	338,550
Standard Mail (B)														
Parcel Post	1,158,410	2.7%	1,232,559	106.4%	74,149	0.27%	6.4%	9.97%	405,634	3.0386	2.8558	0.1828	1,124,670	33,740
Bound Printed Matter	546,063	1.3%	644,734	118.1%	98,671	0.36%	18.1%	28.13%	594,824	1.0839	0.9180	0.1659	530,158	15,905
Media Mail			261,009						159,100	1.6405	0.0000	1.6405	-	-
Library Rate			48,498						27,111	1.7889	0.0000	1.7889	-	-
Total Media & Library	279,129	0.7%	309,507	110.9%	30,378	0.11%	10.9%	16.94%	186,211	1.6621			270,999	
Total Standard Mail (B)	1,983,602	4.7%	2,186,800	110.2%	203,198	0.74%	10.2%	15.95%	1,186,669	1.8428	1.6716	0.1712	1,925,827	57,775
Penalty						0.00%	-100.0%	-155.69%	353,484					
Free-for-the-Blind	38,290	0.1%	0	0.0%	(38,290)	-0.14%	-100.0%	-155.69%	46,859	0.0000	0.8171	-0.8171	37,175	1,115
Total Domestic Mail	39,201,645	92.0%	65,766,829	167.8%	26,565,184	97.06%	67.8%	105.51%	215,288,423	0.3055	0.1821	0.1234	38,059,850	1,141,795
International Mail	1,686,535	4.0%	1,892,822	112.2%	206,287	0.75%	12.2%	19.04%	1,289,500	1.4679	1.3079	0.1600	1,637,413	49,122
Total All Mail	40,888,180	95.9%	67,659,651	165.5%	26,771,471	97.81%	65.5%	101.94%	216,577,923	0.3124	0.1888	0.1236	39,697,262	1,190,918
Special Services														
Registry	80,198	0.2%	93,555	116.7%	13,357	0.05%	16.7%	25.93%	10,515	8.8973	7.6270	1.2703	77,862	2,336
Certified Mail	447,608	1.1%	595,787	133.1%	148,179	0.54%	33.1%	51.54%	283,708	2.1000	1.5777	0.5223	434,571	13,037
Insurance	106,952	0.3%	136,607	127.7%	29,655	0.11%	27.7%	43.17%	64,165	2.1290	1.6668	0.4622	103,837	3,115
COD	12,588	0.0%	17,700	140.6%	5,112	0.02%	40.6%	63.23%	3,100	5.7097	4.0606	1.6490	12,221	367
Money Orders	181,638	0.4%	298,219	164.2%	116,581	0.43%	64.2%	99.93%	231,804	1.2865	0.7836	0.5029	176,348	5,290
Stamped Cards	3,085	0.0%	3,647	118.2%	562	0.00%	18.2%	28.36%	182,342	0.0200	0.0169	0.0031	2,995	90
Stamped Envelopes	12,969	0.0%	16,102	124.2%	3,133	0.01%	24.2%	37.61%	400,000	0.0403	0.0324	0.0078	12,591	378
Box/Caller Service	673,505	1.6%	746,319	110.8%	72,814	0.27%	10.8%	16.83%	17,232	43.3101	39.0846	4.2255	653,888	19,617
Other	207,448	0.5%	417,484	201.2%	210,036	0.77%							201,406	6,042
Total Special Services	1,725,991	4.1%	2,325,420	134.7%	599,429	2.19%	34.7%	54.07%					1,675,719	50,272
Total Mail & Services	42,614,171	100.0%	69,985,071	164.2%	27,370,900	100.00%	64.2%	100.00%	216,577,923	0.3231	0.1968	0.1264	41,372,982	1,241,189
Other Costs	32,610,852													
Other Income			589,816										31,661,021	949,831
Prior Years Loss Recovery	632,809												632,809	-
Continuing Appropriations			30,857											
Investment Income			(22,434)											
Grand Total	75,857,832		70,583,310		(5,274,522)								73,666,812	2,191,020

**Summary of Estimated Test Year After Rates Finances at USPS Proposed Rates  
(PRC Cost Methodology)  
(Thousands Except For Units)**

EXHIBIT MMA-1A

Page 2A

Description	Vol Variable Cost (1A)	% of Vol Variable Costs (1A)/Total(1A) (2A)	Revenue (3A)	Cost Coverage (3A)/(1A) (4A)	Contrib To Oth Costs (3A) - (1A) (5A)	% of Other Costs (5A)/Total(5A) (6A)	Mark Up (4A) - 1 (7A)	Mark Up Index (7A)/Total(7A) (8A)	Mail Volume (9A)	Unit Revenue (3A)/(9A) (10A)	Unit Cost (1A)/(9A) (11A)	Unit Contrib (10A) - (11A) (12A)	Volume Variable Cost Without Contingency (1A)/1.03 (13A)	Contingency (1) - (13A) (14A)	Proposed Increase in Revenue Contribution (5A) - (5B) (15A)	% of Proposed Increase in Revenue Contribution (15A)/Total(15) (16A)
<b>First-Class Mail</b>																
Single-Piece Letters	13,694,415	30.2%	21,878,353	159.8%	8,183,938	28.3%	59.8%	93.7%	46,865,402	0.4668	0.2922	0.1746	13,295,549	398,866	1,338,879	26%
Presort and Automation Letters	5,986,916	13.2%	15,990,748	267.1%	10,003,830	34.8%	167.1%	262.1%	51,322,082	0.3116	0.1167	0.1949	5,812,540	174,376	1,340,817	26%
Total Letters	19,681,332	43.4%	37,869,099	192.4%	18,187,767	62.9%	92.4%	145.0%	98,187,484	0.3857	0.2004	0.1852	19,108,089	573,243	2,679,495	52%
Single-Piece Cards	824,401	1.4%	630,696	101.0%	6,295	0.0%	1.0%	1.6%	2,624,412	0.2403	0.2379	0.0024	606,215	18,186	55,448	1%
Presort and Automation Cards	160,883	0.4%	488,937	303.9%	328,054	1.1%	203.9%	319.8%	2,642,267	0.1850	0.0609	0.1242	156,197	4,686	7,840	0%
Total Cards	785,284	1.7%	1,119,633	142.6%	334,349	1.2%	42.6%	66.6%	5,266,679	0.2126	0.1491	0.0635	762,412	22,872	63,288	1%
Total First-Class Mail	20,466,616	45.1%	38,988,732	190.5%	18,522,116	64.1%	90.5%	142.0%	103,454,163	0.3789	0.1978	0.1790	19,870,501	596,115	2,742,783	54%
<b>Priority Mail</b>	3,888,416	8.6%	6,200,084	159.5%	2,311,668	8.0%	59.5%	93.2%	1,178,757	5.2598	3.2967	1.9611	3,775,161	113,255	517,723	10%
<b>Express Mail</b>	614,341	1.4%	1,133,705	184.5%	519,364	1.8%	84.5%	132.8%	89,911	16.2184	8.7875	7.4289	596,448	17,893	24,330	0%
<b>Maiograms</b>	808	0.0%	1,131	140.0%	323	0.0%	40.0%	62.7%	2,725	0.4150	0.2965	0.1185	784	24	(5)	0%
<b>Periodicals</b>		0.0%														
Within County	82,415	0.2%	82,526	100.1%	111	0.0%	0.1%	0.2%	853,535	0.0967	0.0966	0.0001	80,015	2,400	1,225	0%
Outside County	2,477,688	5.5%	2,511,600	101.4%	33,912	0.1%	1.4%	2.1%	9,108,974	0.2757	0.2720	0.0037	2,405,522	72,166	233,982	5%
Total Periodicals	2,560,103	5.6%	2,594,126	101.3%	34,023	0.1%	1.3%	2.1%	9,962,509	0.2604	0.2570	0.0034	2,485,537	74,566	235,207	5%
<b>Standard Mail (A)</b>																
Regular			11,042,480						47,296,185	0.2335			-	-	0	
Nonprofit			1,869,063						11,882,923	0.1405			-	-	0	
Total Regular & Nonprofit	9,410,109	20.8%	12,711,543	135.1%	3,301,434	11.4%	35.1%	55.0%	59,179,108	0.2148	0.1590	0.0558	9,136,028	274,081	848,774	17%
Enhanced Carrier Route			5,555,656						33,125,889	0.1677		0.1677	-	-	0	
Nonprofit ECR			325,210						3,296,397	0.1005		0.1005	-	-	0	
Total ECR & NPECR	2,926,088	6.5%	5,880,866	201.0%	2,954,778	10.2%	101.0%	158.4%	36,362,086	0.1617	0.0805	0.0813	2,840,862	85,226	272,061	5%
Total Standard Mail (A)	12,336,196	27.2%	18,592,409	150.7%	6,256,213	21.6%	50.7%	79.5%	95,541,194	0.1946	0.1291	0.0655	11,976,890	359,307	1,120,836	22%
<b>Standard Mail (B)</b>																
Parcel Post	1,049,830	2.3%	1,202,568	114.6%	152,938	0.5%	14.6%	22.9%	371,533	3.2368	2.8251	0.4116	1,019,058	30,572	88,544	2%
Bound Printed Matter	561,111	1.2%	695,754	124.0%	134,643	0.5%	24.0%	37.8%	588,557	1.1821	0.9534	0.2288	544,768	16,343	54,657	1%
Media Mail			270,795						158,641	1.7070			-	-		
Library Rate			49,972						27,047	1.8476			-	-		
Total Media & Library	292,805	0.6%	320,767	109.5%	27,962	0.1%	9.5%	15.0%	1,145,778	0.2800	0.2556	0.0244	284,277	8,528	11,222	0%
Total Standard Mail (B)	1,903,546		2,219,089										1,848,103	55,443	(161,120)	-3%
<b>Penalty</b>								0.0%	353,484				-	-		0%
<b>Free-for-the-Blind</b>	40,836	0.1%	0	0.0%	(40,836)	-0.1%		0.0%	46,859	0.0000	0.8715	-0.8715	39,647	1,189	(54)	0%
<b>Total Domestic Mail</b>	41,810,863	92.2%	69,729,276	166.8%	27,918,413	96.6%	66.8%	104.7%	211,755,380	0.3293	0.1974	0.1318	40,593,071	1,217,792	4,795,242	94%
<b>International Mail</b>	1,707,632	3.8%	1,917,956	112.3%	210,324	0.7%	12.3%	19.3%	1,205,553	1.5909	1.4165	0.1745	1,657,895	49,737	55,734	1%
<b>Total All Mail</b>	43,518,495	96.0%	71,647,232	164.6%	28,128,737	97.3%	64.6%	101.4%	212,960,933	0.3364	0.2043	0.1321	42,250,966	1,267,529	4,850,976	95%
<b>Special Services</b>																
Registry	58,268	0.1%	98,550	169.1%	40,282	0.1%	69.1%	108.4%	10,331	9.5393	5.6401	3.8991	56,571	1,697	5,196	0%
Certified Mail	507,715	1.1%	696,829	137.2%	188,914	0.7%	37.2%	58.4%	302,882	2.3000	1.6763	0.6237	492,927	14,788	72,514	1%
Insurance	108,792	0.2%	143,868	132.2%	35,076	0.1%	32.2%	50.6%	61,800	2.3280	1.7804	0.5676	105,623	3,169	5,481	0%
COD	13,427	0.0%	17,700	131.8%	4,273	0.0%	31.8%	49.9%	3,100	5.7097	4.3313	1.3784	13,036	391	(15)	0%
Money Orders	186,621	0.4%	303,574	162.7%	116,953	0.4%	62.7%	98.3%	229,607	1.3221	0.8128	0.5094	181,185	5,436	(1,097)	0%
Stamped Cards	2,884	0.0%	3,408	118.2%	524	0.0%	18.2%	28.5%	170,412	0.0200	0.0169	0.0031	2,800	84	(36)	0%
Stamped Envelopes	12,923	0.0%	16,102	124.6%	3,179	0.0%	24.6%	38.6%	400,000	0.0403	0.0323	0.0079	12,547	376	(7)	0%
Box/Carrier Service	649,827	1.4%	854,712	131.5%	204,885	0.7%	31.5%	49.5%	17,232	49.6003	37.7105	11.8898	630,900	18,927	121,612	2%
Other	278,455	0.6%	459,831	165.1%	181,376	0.6%	65.1%						270,345	8,110	54,985	1%
Total Special Services	1,818,912	4.0%	2,594,374	142.6%	775,462	2.7%	42.6%	66.9%					1,765,934	52,978	258,631	5%
<b>Total Mail &amp; Services</b>	45,337,407	100.0%	74,241,606	163.8%	28,904,199	100.0%	63.8%	100.0%	212,960,933	0.3486	0.2129	0.1357	44,016,900	1,320,507	5,109,607	100%
<b>Other Costs</b>	28,758,382												27,920,759	837,623		
Other Income			589,816													
Prior Years Loss Recovery	632,809												632,809	-		
Continuing Appropriations			30,867													
Investment Income			(21,946)													
<b>Grand Total</b>	74,728,598		74,840,331		111,733								72,570,468	2,158,130		

Source for Column (1A): USPS-LR-75, Volume H, Table E "D" Report (Final Adjustments) Revised 10/31/01 USPS-LR-J-95

(3A),(9A) Exhibit MMA-1A, Page 1A

**Summary of Estimated Test Year Before Rates Finances  
(PRC Cost Methodology)  
(Thousands Except For Units)**

EXHIBIT MMA-1A  
Page 2B

Description	Vol Variable Costs (1B)	% of Vol Variable Costs (1B) / Total (1B) (2B)	Revenue (3B)	Cost Coverage (3B) / (1B) (4B)	Contrib To Oth Costs (3B) - (1B) (5B)	% of Other Costs (5B) / Total (5B) (6B)	Mark Up (4B) - 1 (7B)	Mark Up Index (7B) / Total (7B) (8B)	Mail Volume (9B)	Unit Revenue (3B) / (9B) (10B)	Unit Cost (1B) / (9B) (11B)	Unit Contrib (10B) - (11B) (12B)
First-Class Mail												
Single-Piece Letters	13,958,342	30.22%	20,803,401	149.0%	6,845,059	28.8%	49.0%	95.2%	47,899,389	0.4343	0.2914	0.1429
Presort and Automation Letters	5,959,367	12.90%	14,622,580	245.4%	8,663,213	36.4%	145.4%	282.2%	51,299,213	0.2850	0.1162	0.1689
Total Letters	19,917,709	43.12%	35,425,981	177.9%	15,508,272	65.2%	77.9%	151.1%	99,198,602	0.3571	0.2008	0.1563
Single-Piece Cards	641,031	1.39%	591,878	92.3%	(49,153)	-0.2%	-7.7%	-14.9%	2,703,008	0.2190	0.2372	-0.0182
Presort and Automation Cards	179,289	0.39%	499,503	278.6%	320,214	1.3%	178.6%	346.7%	2,930,767	0.1704	0.0612	0.1093
Total Cards	820,320	1.78%	1,091,381	133.0%	271,061	1.1%	33.0%	64.1%	5,633,775	0.1937	0.1456	0.0481
Total First-Class Mail	20,738,029	44.90%	36,517,362	176.1%	15,779,333	66.3%	76.1%	147.7%	104,832,377	0.3483	0.1978	0.1505
Priority Mail	4,031,327	8.73%	5,825,272	144.5%	1,793,945	7.5%	44.5%	86.4%	1,257,064	4.6340	3.2069	1.4271
Express Mail	650,229	1.41%	1,145,263	176.1%	495,034	2.1%	76.1%	147.8%	77,239	14.8275	8.4184	6.4091
Mailgrams	803	0.00%	1,131	140.8%	328	0.0%	40.8%	79.3%	2,725	0.4150	0.2947	0.1204
Periodicals												
Within County	82,452	0.18%	81,338	98.6%	(1,114)	0.0%	-1.4%	-2.6%	855,781	0.0950	0.0963	-0.0013
Outside County	2,494,047	5.40%	2,293,977	92.0%	(200,070)	-0.8%	-8.0%	-15.6%	9,182,082	0.2498	0.2716	-0.0218
Total Periodicals	2,576,499	5.58%	2,375,315	92.2%	(201,184)	-0.8%	-7.8%	-15.2%	10,037,863	0.2366	0.2567	-0.0200
Standard Mail (A)												
Regular			10,484,194						48,424,553	0.2165		
Nonprofit			1,573,085						11,943,287	0.1317		
Total Regular & Nonprofit	9,604,619	20.79%	12,057,279	125.5%	2,452,660	10.3%	25.5%	49.6%	60,367,840	0.1997	0.1591	0.0406
Enhanced Carrier Route			5,351,517						33,873,784	0.1580		
Nonprofit ECR			306,890						3,252,519	0.0944		
Total ECR & NPECR	2,975,690	6.44%	5,658,407	190.2%	2,682,717	11.3%	90.2%	175.0%	37,126,303	0.1524	0.0802	0.0723
Total Standard Mail (A)	12,580,309	27.24%	17,715,686	140.8%	5,135,377	21.6%	40.8%	79.2%	97,494,143	0.1817	0.1290	0.0527
Standard Mail (B)												
Parcel Post	1,168,165	2.53%	1,232,559	105.5%	64,394	0.3%	5.5%	10.7%	405,634	3.0386	2.8798	0.1587
Bound Printed Matter	564,748	1.22%	644,734	114.2%	79,986	0.3%	14.2%	27.5%	594,824	1.0839	0.9494	0.1345
Media Mail			261,009						159,100	1.6405		
Library Rate			48,498						27,111	1.7889		
Total Media & Library	292,767	0.63%	309,507	105.7%	16,740	0.1%	5.7%	11.1%	186,211	1.6621	1.5722	0.0899
Total Standard Mail (B)	2,025,680		2,186,800		161,120				1,186,669	1.8428	1.7070	0.1358
Penalty		0.00%			0	0.0%			353,484			
Free-for-the-Blind	40,782	0.09%	0	0.0%	(40,782)	-0.2%			46,859			
Total Domestic Mail	42,643,658	92.32%	65,766,829	154.2%	23,123,171	97.2%	54.2%	105.3%	214,287,965	0.3069	0.1990	0.1079
International Mail	1,738,232	3.76%	1,892,822	108.9%	154,590	0.6%	8.9%	17.3%	1,289,500	1.4679	1.3480	0.1199
Total All Mail	44,381,890	96.08%	67,659,651	152.4%	23,277,761	97.8%	52.4%	101.8%	215,577,465	0.3139	0.2059	0.1080
Special Services												
Registry	58,469	0.13%	93,555	160.0%	35,086	0.1%	60.0%	116.5%	10,515	8.8973	5.5605	3.3368
Certified Mail	479,387	1.04%	595,787	124.3%	116,400	0.5%	24.3%	47.1%	283,708	2.1000	1.6897	0.4103
Insurance	107,012	0.23%	136,607	127.7%	29,595	0.1%	27.7%	53.7%	64,165	2.1290	1.6678	0.4612
COD	13,412	0.03%	17,700	132.0%	4,288	0.0%	32.0%	62.1%	3,100	5.7097	4.3265	1.3832
Money Orders	180,169	0.39%	298,219	165.5%	118,050	0.5%	65.5%	127.2%	231,804	1.2865	0.7772	0.5093
Stamped Cards	3,085	0.01%	3,647	118.2%	562	0.0%	18.2%	35.4%	182,342	0.0200	0.0169	0.0031
Stamped Envelopes	12,916	0.03%	16,102	124.7%	3,186	0.0%	24.7%	47.9%	400,000	0.0403	0.0323	0.0080
Box/Caller Service	663,046	1.44%	746,319	112.6%	83,273	0.3%	12.6%	24.4%	17,232	43.3101	38.4776	4.832
Other	291,093	0.63%	417,484	143.4%	126,391	0.5%	43.4%					
Total Special Services	1,808,589	3.92%	2,325,420	128.6%	516,831	2.2%	28.6%	55.5%				
Total Mail & Services	46,190,479	100.00%	69,985,071	151.5%	23,794,592	100.0%	51.5%	100.0%	215,577,465	0.3246	0.2143	0.1104
Other Costs	29,006,232											
Other Income			589,816									
Prior Years Loss Recovery	632,809											
Continuing Appropriations			30,857									
Investment Income			(22,434)									
Grand Total	75,829,520		70,583,310		(5,246,210)							

Source for Column (1B): USPS-LR-75, Volume F, Table E "D" Report (Final Adjustments)

(3B),(9B) Exhibit MMA-1A, Page 1B

**Summary of Estimated Test Year After Rates Finances at First-Class Settlement Proposed Rates  
(USPS Cost Methodology, No Volume Change )  
(Thousands Except For Units)**

EXHIBIT MMA-1A

Page 3

Description	Vol Variable Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (8)	Mark Up (4) - (1) (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)	Proposed Increase (10A) / (10B) (13)	Proposed Increase in Revenue Contribution (5) - (5.1B) (14)	% of Proposed Increase in Revenue Contribution (14) / Total (14) (15)
First-Class Mail															
Single-Piece Letters	12,425,858	29.9%	21,876,737 [1]	176.1%	9,450,879	29.03%	76.1%	97.20%	46,865,402	0.4668	0.2651	0.2017	7.5%	1,326,220	26%
Presort and Automation Letters	5,436,371	13.1%	15,910,322 [1]	292.7%	10,473,951	32.17%	192.7%	246.22%	51,322,082	0.3100	0.1059	0.2041	8.8%	1,272,931	25%
Total Letters	17,862,230	42.9%	37,787,059	211.5%	19,924,830	61.20%	111.5%	142.55%	98,187,484	0.3848	0.1819	0.2029	7.8%	2,599,151	50%
Single-Piece Cards	559,631	1.3%	630,354 [1]	112.6%	70,723	0.22%	12.6%	16.15%	2,624,412	0.2402	0.2132	0.0269	9.7%	53,986	1%
Presort and Automation Cards	145,835	0.4%	488,937	335.3%	343,102	1.05%	235.3%	300.87%	2,642,267	0.1850	0.0552	0.1299	8.6%	6,386	0%
Total Cards	705,466	1.7%	1,119,291	158.7%	413,826	1.27%	58.7%	74.97%	5,266,679	0.2125	0.1339	0.0786	9.7%	60,373	1%
Total First-Class Mail	18,567,695	44.6%	38,906,350	209.5%	20,338,655	62.47%	109.5%	138.99%	103,454,163	0.3761	0.1795	0.1966	8.0%	2,659,523	51%
Priority Mail	3,567,868	8.6%	6,200,084	173.8%	2,632,216	8.09%	73.8%	94.28%	1,178,757	5.2598	3.0268	2.2330	13.5%	573,994	11%
Express Mail	494,779	1.2%	1,133,705	229.1%	638,926	1.96%	129.1%	165.03%	69,911	16.2154	7.0773	9.1391	9.4%	36,708	1%
Mailgrams	639	0.0%	1,131	177.1%	492	0.00%	77.1%	98.54%	2,725	0.4150	0.2343	0.1807	0.0%	(5)	0%
Periodicals															
Within County	78,780	0.2%	82,526	104.8%	3,746	0.01%	4.8%	6.08%	853,535	0.0967	0.0923	0.0044	1.7%	1,248	0%
Outside County	2,313,124	5.6%	2,511,600	108.6%	198,476	0.61%	8.6%	10.97%	9,108,974	0.2757	0.2539	0.0218	10.4%	232,916	4%
Total Periodicals	2,391,903	5.7%	2,594,126	108.5%	202,223	0.62%	8.5%	10.80%	9,962,509	0.2604	0.2401	0.0203	10.0%	234,165	5%
Standard Mail (A)															
Regular			11,042,480						47,296,185	0.2335	0.0000	0.2335	7.8%		
Nonprofit			1,569,063						11,882,923	0.1405	0.0000	0.1405	5.6%		
Total Regular & Nonprofit	8,689,931	20.9%	12,711,543	146.3%	4,021,612	12.35%	46.3%	59.14%	59,179,108	0.2148	0.1468	0.0680	7.5%	837,929	16%
Enhanced Carrier Route			5,555,656						33,125,689	0.1677	0.0000	0.1677	6.2%		
Nonprofit ECR			325,210						3,236,397	0.1005	0.0000	0.1005	6.5%		
Total ECR & NPECR	2,700,570	6.5%	5,880,866	217.8%	3,180,296	9.77%	117.8%	150.50%	36,362,086	0.1617	0.0743	0.0875	6.1%	271,830	5%
Total Standard Mail (A)	11,390,501	27.4%	18,592,409	163.2%	7,201,908	22.12%	63.2%	80.80%	95,541,194	0.1946	0.1192	0.0754	7.1%	1,109,759	21%
Standard Mail (B)									0						
Parcel Post	1,040,198	2.5%	1,202,568	115.6%	162,370	0.50%	15.6%	19.95%	371,533	3.2368	2.7997	0.4370	6.5%	88,221	2%
Bound Printed Matter	542,173	1.3%	695,754	128.3%	153,581	0.47%	28.3%	36.20%	588,557	1.1821	0.9212	0.2609	9.1%	54,910	1%
Media Mail			270,795						158,641	1.7070	0.0000	1.7070	4.0%		
Library Rate			48,972						27,047	1.8476	0.0000	1.8476	3.3%		
Total Media & Library	279,039	0.7%	320,767	115.0%	41,728	0.13%	15.0%	19.11%	185,688				-100.0%	11,350	0%
Total Standard Mail (B)	1,861,411	4.5%	2,219,089	119.2%	357,678	1.10%	19.2%	24.56%	1,145,778	1.9368	1.6246	0.3122	5.1%	154,480	3%
Penalty									353,484						0%
Free-for-the-Blind	38,344	0.1%	0	0.0%	(38,344)	-0.12%			46,859	0.0000	0.8183	-0.8183		(54)	0%
Total Domestic Mail	38,313,140	92.1%	69,646,894	181.8%	31,333,755	96.25%	81.8%	104.52%	211,755,380	0.3289	0.1809	0.1480	7.7%	4,768,571	92%
International Mail	1,580,532	3.8%	1,917,956	121.3%	337,424	1.04%	21.3%	27.28%	1,205,553	1.5909	1.3110	0.2799	8.4%	131,137	3%
Total All Mail	39,893,672	95.9%	71,564,850	179.4%	31,671,179	97.29%	79.4%	101.46%	212,960,933	0.3360	0.1873	0.1487	7.6%	4,899,708	95%
Special Services															
Registry	79,573	0.2%	98,550	123.8%	18,977	0.06%	23.8%	30.48%	10,331	9.5393	7.7023	1.8369	7.2%	5,620	0%
Certified Mail	475,444	1.1%	696,629	146.5%	221,185	0.68%	46.5%	59.45%	302,882	2.3000	1.5697	0.7303	9.5%	73,006	1%
Insurance	108,721	0.3%	143,868	132.3%	35,147	0.11%	32.3%	41.31%	61,800	2.3280	1.7592	0.5688	9.3%	5,492	0%
COD	12,598	0.0%	17,700	140.5%	5,102	0.02%	40.5%	51.76%	3,100	5.7097	4.0638	1.6458	0.0%	(10)	0%
Money Orders	180,160	0.4%	303,574	168.5%	123,414	0.38%	68.5%	87.54%	229,607	1.3221	0.7846	0.5375	2.8%	6,833	0%
Stamped Cards	2,885	0.0%	3,408	118.1%	523	0.00%	18.1%	23.17%	170,412	0.0200	0.0169	0.0031	0.0%	(39)	0%
Stamped Envelopes	12,977	0.0%	16,102	124.1%	3,125	0.01%	24.1%	30.78%	400,000	0.0403	0.0324	0.0078	0.0%	(8)	0%
Box/Caller Service	659,700	1.6%	854,712	129.6%	195,012	0.60%	29.6%	37.78%	17,232	49.6003	38.2834	11.3169	14.5%	122,198	2%
Other	178,511	0.4%	459,831		281,320	0.86%								71,284	1%
Total Special Services	1,710,568	4.1%	2,594,374	151.7%	883,806	2.71%	51.7%	66.03%						284,377	5%
Total Mail & Services	41,604,240	100.0%	74,159,224	178.2%	32,554,984	100.00%	78.2%	100.00%	212,960,933	0.3482	0.1954	0.1529	7.8%	5,184,084	100%
Other Costs	32,582,084														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,948)												
Grand Total	74,819,133		74,757,949		(61,183)										

(1), (3), (9) Worksheet TY (USPS COST METHOD)

[1] Revenue from worksheet TY (USPS COST METHOD) + revenue change from Worksheet SETTLEMENT REV IMPACT



**Summary of Estimated Test Year After Rates Finances at First-Class Settlement Proposed Rates  
(PRC Cost Methodology, No Volume Change)  
(Thousands Except For Units)**

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Description	Vol Variable Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)	Proposed Increase (10A) / (10B) (13)	Proposed Increase in Revenue Contribution (5) - (5.1B) (14)	% of Proposed Increase in Revenue Contribution (14) / Total (14) (15)
<b>First-Class Mail</b>															
Single-Piece Letters	13,694,415	30.2%	21,876,737 [1]	159.7%	8,182,322	28.39%	59.7%	93.99%	46,865,402	0.4668	0.2922	0.1746	7.5%	57,663	4%
Presort and Automation Letters	5,986,916	13.2%	15,910,322 [1]	265.8%	9,923,406	34.43%	165.8%	260.73%	51,322,082	0.3100	0.1167	0.1934	8.8%	722,386	50%
Total Letters	19,681,332	43.4%	37,787,059	192.0%	18,105,727	62.82%	92.0%	144.71%	98,187,484	0.3848	0.2004	0.1844	7.8%	780,048	54%
Single-Piece Cards	624,401	1.4%	630,354 [1]	101.0%	5,953	0.02%	1.0%	1.50%	2,624,412	0.2402	0.2379	0.0023	9.7%	(10,784)	-1%
Presort and Automation Cards	160,883	0.4%	488,937	303.9%	328,054	1.14%	203.9%	320.75%	2,642,267	0.1850	0.0609	0.1242	8.6%	(8,662)	-1%
Total Cards	785,284	1.7%	1,119,291	142.5%	334,007	1.16%	42.5%	66.91%	5,266,679	0.2125	0.1491	0.0634	9.7%	(19,446)	-1%
Total First-Class Mail	20,466,616	45.1%	38,906,350	190.1%	18,439,734	63.98%	90.1%	141.72%	103,454,163	0.3761	0.1978	0.1782	8.0%	760,602	52%
Priority Mail	3,888,416	8.6%	6,200,084	159.5%	2,311,668	8.02%	59.5%	93.52%	1,178,757	5.2598	3.2987	1.9611	13.5%	253,446	17%
Express Mail	614,341	1.4%	1,133,705	184.5%	519,364	1.80%	84.5%	132.98%	69,911	16.2164	8.7875	7.4289	9.4%	(82,854)	-6%
Mailgrams	808	0.0%	1,131	140.0%	323	0.00%	40.0%	62.88%	2,725	0.4150	0.2965	0.1185	0.0%	(174)	0%
<b>Periodicals</b>															
Within County	82,415	0.2%	82,526	100.1%	111	0.00%	0.1%	0.21%	853,535	0.0967	0.0966	0.0001	1.7%	(2,387)	0%
Outside County	2,477,688	5.5%	2,511,800	101.4%	33,912	0.12%	1.4%	2.15%	9,108,974	0.2757	0.2720	0.0037	10.4%	68,352	5%
Total Periodicals	2,560,103	5.6%	2,594,126	101.3%	34,023	0.12%	1.3%	2.09%	9,962,509	0.2604	0.2570	0.0034	10.0%	65,965	5%
<b>Standard Mail (A)</b>															
Regular			11,042,480						47,296,185	0.2335	0.0000	0.2335	7.8%		
Nonprofit			1,669,063						11,882,923	0.1405	0.0000	0.1405	6.6%		
Total Regular & Nonprofit	9,410,109	20.8%	12,711,543	135.1%	3,301,434	11.45%	35.1%	55.19%	59,179,108	0.2148	0.1590	0.0558	7.5%	117,751	8%
Enhanced Carrier Route			5,555,856						33,125,689	0.1677	0.0000	0.1677	6.2%		
Nonprofit ECR			325,210						3,238,397	0.1005	0.0000	0.1005	6.5%		
Total ECR & NPECR	2,926,088	6.5%	5,880,866	201.0%	2,954,778	10.25%	101.0%	158.84%	36,362,086	0.1617	0.0805	0.0813	6.1%	46,312	3%
Total Standard Mail (A)	12,336,196	27.2%	18,592,409	150.7%	6,256,213	21.71%	50.7%	79.77%	95,541,194	0.1946	0.1291	0.0655	7.1%	164,064	11%
<b>Standard Mail (B)</b>									0						
Parcel Post	1,049,630	2.3%	1,202,568	114.6%	152,938	0.53%	14.6%	22.92%	371,533	3.2368	2.8251	0.4116	6.5%	78,789	5%
Bound Printed Matter	561,111	1.2%	695,754	124.0%	134,643	0.47%	24.0%	37.75%	588,557	1.1821	0.9534	0.2288	9.1%	35,972	2%
Media Mail			270,795						158,641	1.7070	0.0000	1.7070	4.0%		
Library Rate			49,972						27,047	1.8476	0.0000	1.8476	3.3%		
Total Media & Library	292,805	0.6%	320,767	109.5%	27,962	0.10%	9.5%	15.02%	185,688				-100.0%	(2,416)	0%
Total Standard Mail (B)	1,903,546	4.2%	2,219,089	116.6%	315,543	1.09%	16.6%	26.08%	1,145,778	1.9368	1.6614	0.2754	5.1%	112,345	8%
<b>Penalty</b>									353,484						0%
Free-for-the-Blind	40,836	0.1%	0	0.0%	(40,836)	-0.14%			46,859	0.0000	0.8715	-0.8715		(2,546)	0%
Total Domestic Mail	41,810,863	92.2%	69,646,894	166.6%	27,836,031	96.58%	66.6%	104.73%	211,755,380	0.3289	0.1974	0.1315	7.7%	1,270,847	88%
International Mail	1,707,632	3.8%	1,917,956	112.3%	210,324	0.73%	12.3%	19.37%	1,205,553	1.5909	1.4165	0.1745	8.4%	4,037	0%
Total All Mail	43,518,495	96.0%	71,564,850	164.4%	28,046,356	97.31%	64.4%	101.38%	212,960,933	0.3360	0.2043	0.1317	7.6%	1,274,885	88%
<b>Special Services</b>															
Registry	58,268	0.1%	98,550	169.1%	40,282	0.14%	69.1%	108.75%	10,331	9.5393	5.6401	3.8991	7.2%	26,925	2%
Certified Mail	507,715	1.1%	696,629	137.2%	188,914	0.66%	37.2%	58.53%	302,882	2.3000	1.6763	0.6237	9.5%	40,735	3%
Insurance	108,792	0.2%	143,868	132.2%	35,076	0.12%	32.2%	50.72%	61,800	2.3280	1.7604	0.5676	9.3%	5,421	0%
COD	13,427	0.0%	17,700	131.8%	4,273	0.01%	31.8%	50.06%	3,100	5.7097	4.3313	1.3784	0.0%	(839)	0%
Money Orders	186,621	0.4%	303,574	162.7%	116,953	0.41%	62.7%	98.58%	229,607	1.3221	0.8128	0.5094	2.8%	372	0%
Stamped Cards	2,884	0.0%	3,408	118.2%	524	0.00%	18.2%	28.58%	170,412	0.0200	0.0169	0.0031	0.0%	(38)	0%
Stamped Envelopes	12,923	0.0%	16,102	124.6%	3,179	0.01%	24.6%	38.69%	400,000	0.0403	0.0323	0.0079	0.0%	46	0%
Box/Caller Service	649,827	1.4%	854,712	131.5%	204,885	0.71%	31.5%	49.60%	17,232	49.6003	37.7105	11.8898	14.5%	132,071	9%
Other	278,455	0.6%	459,831	165.1%	181,376	0.63%								(28,660)	-2%
Total Special Services	1,818,912	4.0%	2,594,374	142.6%	775,462	2.69%	42.6%	67.06%						176,033	12%
Total Mail & Services	45,337,407	100.0%	74,159,224	163.6%	28,821,818	100.00%	63.6%	100.00%	212,960,933	0.3482	0.2129	0.1353	7.8%	1,450,918	100%
<b>Other Costs</b>	28,758,382														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,848)												
<b>Grand Total</b>	<b>74,728,598</b>		<b>74,757,949</b>		<b>29,352</b>										

(1) Worksheet TY (PRC COST METHOD)

(3) . (9) Worksheet TY (USPS COST METHOD)

[1] Revenue from worksheet TY (USPS COST METHOD) + revenue change from Worksheet SETTLEMENT REV IMPACT

Revenue Impact of First-Class Settlement Proposed Rates  
(000's)

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	(1)	(2)	(3)
First-Class Rate Category	Test Year After Rates Volume	Change from USPS Proposed Rate (\$)	Revenue Increase (Decrease)
Single Piece:			
QBRM Letters	323,137	\$ (0.005)	\$ (1,616)
QBRM Cards	68,337	\$ (0.005)	\$ (342)
Total Single Piece			\$ (1,957)
Worksharing:			
3-Digit	24,694,572	\$ (0.002)	\$ (49,389)
5-Digit	15,517,542	\$ (0.002)	\$ (31,035)
Total Worksharing			\$ (80,424)
Total First-Class			\$ (82,382)

(1) USPS-LR-J-102

(2) Settlement Proposed Rates - USPS Proposed Rates

(3) (1) \* (2)

**Summary of Estimated Test Year After Rates Finances at First-Class Settlement Proposed Rates  
(USPS Cost Methodology, No Volume Change)  
(Thousands Except For Units)**

EXHIBIT MMA-1A  
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Description	Vol Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contnb To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contnb (10) - (11) (12)	Proposed Increase (10A) / (10B) (13)	Proposed Increase In Revenue Contribution (5) - (5.1B) (14)	% of Proposed Increase In Revenue Contribution (14) / Total (14) (15)
First-Class Mail															
Single-Piece Letters	12,425,858	29.9%	21,884,493 [1]	176.1%	9,458,634	27.75%	76.1%	92.93%	46,865,402	0.4670	0.2651	0.2018	7.5%	1,333,975	20%
Presort and Automation Letters	5,436,371	13.1%	17,345,623 [1]	319.1%	11,909,252	34.95%	219.1%	267.44%	51,322,082	0.3380	0.1059	0.2320	18.6%	2,708,232	40%
Total Letters	17,862,230	42.9%	39,230,116	219.6%	21,367,886	62.70%	119.6%	146.04%	98,187,484	0.3995	0.1819	0.2176	11.9%	4,042,207	60%
Single-Piece Cards	559,831	1.3%	631,994 [1]	112.9%	72,363	0.21%	12.9%	15.79%	2,624,412	0.2408	0.2132	0.0276	10.0%	55,626	1%
Presort and Automation Cards	145,835	0.4%	568,860	390.1%	423,026	1.24%	290.1%	354.12%	2,642,267	0.2153	0.0552	0.1601	26.3%	86,310	1%
Total Cards	705,466	1.7%	1,200,855	170.2%	495,389	1.45%	70.2%	85.73%	5,266,679	0.2280	0.1339	0.0941	17.7%	141,936	2%
Total First-Class Mail	18,567,695	44.6%	40,430,970	217.7%	21,863,275	64.15%	117.7%	143.75%	103,454,163	0.3908	0.1795	0.2113	12.2%	4,184,143	62%
Priority Mail	3,567,868	8.6%	6,200,084	173.8%	2,632,216	7.72%	73.8%	90.06%	1,178,757	5.2598	3.0268	2.2330	13.5%	573,994	9%
Express Mail	494,779	1.2%	1,133,705	229.1%	638,926	1.87%	129.1%	157.65%	69,911	16.2164	7.0773	9.1391	9.4%	36,708	1%
Mailgrams	639	0.0%	1,131	177.1%	492	0.00%	77.1%	94.13%	2,725	0.4150	0.2343	0.1807	0.0%	(5)	0%
Periodicals															
Within County	78,780	0.2%	82,526	104.8%	3,746	0.01%	4.8%	5.81%	853,535	0.0967	0.0923	0.0044	1.7%	1,248	0%
Outside County	2,313,124	5.6%	2,511,600	108.6%	198,476	0.58%	8.6%	10.47%	9,108,974	0.2757	0.2539	0.0218	10.4%	232,916	3%
Total Periodicals	2,391,903	5.7%	2,594,126	108.5%	202,223	0.59%	8.5%	10.32%	9,962,509	0.2604	0.2401	0.0203	10.0%	234,165	3%
Standard Mail (A)															
Regular			11,042,480						47,296,185	0.2335	0.0000	0.2335	7.8%		
Nonprofit			1,669,063						11,882,923	0.1405	0.0000	0.1405	6.6%		
Total Regular & Nonprofit	8,689,931	20.9%	12,711,543	146.3%	4,021,612	11.80%	46.3%	56.50%	59,179,108	0.2148	0.1468	0.0680	7.5%	837,929	12%
Enhanced Carrier Route			5,555,656						33,125,689	0.1677	0.0000	0.1677	6.2%		
Nonprofit ECR			325,210						3,236,397	0.1005	0.0000	0.1005	6.5%		
Total ECR & NPECR	2,700,570	6.5%	5,880,866	217.8%	3,180,296	9.33%	117.8%	143.77%	36,362,086	0.1617	0.0743	0.0875	6.1%	271,830	4%
Total Standard Mail (A)	11,390,501	27.4%	18,592,409	163.2%	7,201,908	21.13%	63.2%	77.19%	95,541,194	0.1946	0.1192	0.0754	7.1%	1,109,759	17%
Standard Mail (B)									0						
Parcel Post	1,040,198	2.5%	1,202,568	115.6%	162,370	0.48%	15.6%	19.06%	371,533	3.2368	2.7997	0.4370	6.5%	88,221	1%
Bound Printed Matter	542,173	1.3%	695,754	128.3%	153,581	0.45%	28.3%	34.58%	588,557	1.1821	0.9212	0.2609	9.1%	54,910	1%
Media Mail			270,795						158,641	1.7070	0.0000	1.7070	4.0%		
Library Rate			49,972						27,047	1.8476	0.0000	1.8476	3.3%		
Total Media & Library	279,039	0.7%	320,767	115.0%	41,728	0.12%	15.0%	18.26%	185,688				-100.0%	11,350	0%
Total Standard Mail (B)	1,861,411	4.5%	2,219,089	119.2%	357,678	1.05%	19.2%	23.46%	1,145,778	1.9368	1.6246	0.3122	5.1%	154,480	2%
Penalty									353,484						0%
Free-for-the-Blind	38,344	0.1%	0	0.0%	(38,344)	-0.11%			46,859	0.0000	0.8183	-0.8183		(54)	0%
Total Domestic Mail	38,313,140	92.1%	71,171,514	185.8%	32,858,375	96.42%	85.8%	104.70%	211,755,380	0.3361	0.1809	0.1552	10.0%	6,293,191	94%
International Mail	1,580,532	3.8%	1,917,956	121.3%	337,424	0.99%	21.3%	26.06%	1,205,553	1.5909	1.3110	0.2799	8.4%	131,137	2%
Total All Mail	39,893,672	95.9%	73,089,470	183.2%	33,195,799	97.41%	83.2%	101.58%	212,960,933	0.3432	0.1873	0.1559	9.9%	6,424,328	96%
Special Services															
Registry	79,573	0.2%	98,550	123.8%	18,977	0.06%	23.8%	29.11%	10,331	9.5393	7.7023	1.8369	7.2%	5,620	0%
Certified Mail	475,444	1.1%	696,629	146.5%	221,185	0.65%	46.5%	56.79%	302,882	2.3000	1.5697	0.7303	9.5%	73,006	1%
Insurance	108,721	0.3%	143,868	132.3%	35,147	0.10%	32.3%	39.47%	61,800	2.3280	1.7592	0.5687	9.3%	5,492	0%
COD	12,568	0.0%	17,700	140.5%	5,102	0.01%	40.5%	49.44%	3,100	5.7097	4.0638	1.6458	0.0%	(10)	0%
Money Orders	180,180	0.4%	303,574	168.5%	123,414	0.36%	68.5%	83.63%	229,607	1.3221	0.7846	0.5375	2.8%	6,833	0%
Stamped Cards	2,885	0.0%	3,408	118.1%	523	0.00%	18.1%	22.13%	170,412	0.0200	0.0169	0.0031	0.0%	(39)	0%
Stamped Envelopes	12,977	0.0%	16,102	124.1%	3,125	0.01%	24.1%	29.40%	400,000	0.0403	0.0324	0.0078	0.0%	(8)	0%
Box/Carrier Service	659,700	1.6%	854,712	129.6%	195,012	0.57%	29.6%	36.09%	17,232	49.6003	38.2834	11.3169	14.5%	122,198	2%
Other	178,511	0.4%	459,831	257.6%	281,320	0.83%								71,284	1%
Total Special Services	1,710,568	4.1%	2,594,374	151.7%	883,806	2.59%	51.7%	63.08%						284,377	4%
Total Mail & Services	41,604,240	100.0%	75,683,844	181.9%	34,079,604	100.00%	81.9%	100.00%	212,960,933	0.3554	0.1954	0.1600	10.0%	6,708,704	100%
Other Costs	32,582,084														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,948)												
Grand Total	74,819,133		76,282,569		1,463,437										

(1), (3), (9) Worksheet TY (USPS COST METHOD)

[1] Revenue from worksheet TY (USPS COST METHOD) + revenue change from Worksheet APWU REV IMPACT

**Summary of Estimated Test Year After Rates Finances at First-Class Settlement Proposed Rates  
(PRC Cost Methodology, No Volume Change)  
(Thousands Except For Units)**

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Description	Vol Variable Cost (1)	% of Vol Var Costs (1) / Total (1) (2)	Revenue (3)	Cost Coverage (3) / (1) (4)	Contrib To Oth Costs (3) - (1) (5)	% of Other Costs (5) / Total (5) (6)	Mark Up (4) - 1 (7)	Mark Up Index (7) / Total (7) (8)	Mail Volume (9)	Unit Revenue (3) / (9) (10)	Unit Cost (1) / (9) (11)	Unit Contrib (10) - (11) (12)	Proposed Increase (10A) / (10B) (13)	Proposed Increase in Revenue Contribution (5) - (5.1B) (14)	% of Proposed Increase in Revenue Contribution (14) / Total (14) (15)
<b>First-Class Mail</b>															
Single-Piece Letters	13,894,415	30.2%	21,884,493 [1]	159.8%	8,190,077	26.99%	59.8%	89.35%	46,865,402	0.4670	0.2922	0.1748	7.5%	65,418	2%
Presort and Automation Letters	5,986,916	13.2%	17,345,623 [1]	289.7%	11,358,707	37.43%	189.7%	283.45%	51,322,082	0.3380	0.1167	0.2213	18.6%	2,157,687	73%
Total Letters	19,881,332	43.4%	39,230,116	199.3%	19,548,784	64.42%	99.3%	148.39%	98,187,484	0.3995	0.2004	0.1991	11.9%	2,223,105	75%
Single-Piece Cards	524,401	1.4%	631,994 [1]	101.2%	7,593	0.03%	1.2%	1.82%	2,624,412	0.2408	0.2379	0.0029	10.0%	(9,144)	0%
Presort and Automation Cards	160,883	0.4%	568,860	353.6%	407,978	1.34%	253.6%	378.86%	2,642,267	0.2153	0.0609	0.1544	26.3%	71,262	2%
Total Cards	785,284	1.7%	1,200,855	152.9%	415,571	1.37%	52.9%	79.06%	5,266,679	0.2280	0.1491	0.0789	17.7%	62,118	2%
Total First-Class Mail	20,466,616	45.1%	40,430,970	197.5%	19,964,354	65.79%	97.5%	145.73%	103,454,163	0.3908	0.1978	0.1930	12.2%	2,285,222	77%
Priority Mail	3,888,416	8.6%	6,200,084	159.5%	2,311,668	7.62%	59.5%	88.82%	1,178,757	5.2598	3.2987	1.9611	13.5%	253,446	9%
Express Mail	614,341	1.4%	1,133,705	184.5%	519,364	1.71%	84.5%	126.30%	69,911	16.2164	8.7875	7.4289	9.4%	(82,854)	-3%
Mailgrams	808	0.0%	1,131	140.0%	323	0.00%	40.0%	59.72%	2,725	0.4150	0.2965	0.1185	0.0%	(174)	0%
<b>Periodicals</b>															
Within County	82,415	0.2%	82,526	100.1%	111	0.00%	0.1%	0.20%	853,535	0.0967	0.0966	0.0001	1.7%	(2,387)	0%
Outside County	2,477,688	5.5%	2,511,600	101.4%	33,912	0.11%	1.4%	2.04%	9,108,974	0.2757	0.2720	0.0037	10.4%	68,352	2%
Total Periodicals	2,560,103	5.6%	2,594,126	101.3%	34,023	0.11%	1.3%	1.99%	9,962,509	0.2604	0.2570	0.0034	10.0%	65,965	2%
<b>Standard Mail (A)</b>															
Regular			11,042,480						47,296,185	0.2335	0.0000	0.2335	7.8%		
Nonprofit			1,669,063						11,882,923	0.1405	0.0000	0.1405	6.6%		
Total Regular & Nonprofit	9,410,109	20.8%	12,711,543	135.1%	3,301,434	10.88%	35.1%	52.42%	59,179,108	0.2148	0.1590	0.0558	7.5%	117,751	4%
Enhanced Carrier Route			5,555,656						33,125,689	0.1677	0.0000	0.1677	6.2%		
Nonprofit ECR			325,210						3,236,397	0.1005	0.0000	0.1005	6.5%		
Total ECR & NPECR	2,926,088	6.5%	5,880,866	201.0%	2,954,778	9.74%	101.0%	150.86%	36,362,086	0.1617	0.0805	0.0813	6.1%	46,312	2%
Total Standard Mail (A)	12,336,196	27.2%	18,592,409	150.7%	6,256,213	20.62%	50.7%	75.77%	95,541,194	0.1946	0.1291	0.0655	7.1%	164,064	6%
<b>Standard Mail (B)</b>									0						
Parcel Post	1,049,630	2.3%	1,202,568	114.6%	152,938	0.50%	14.6%	21.77%	371,533	3.2368	2.8251	0.4116	6.5%	78,789	3%
Bound Printed Matter	561,111	1.2%	695,754	124.0%	134,643	0.44%	24.0%	35.85%	588,557	1.1821	0.9534	0.2288	9.1%	35,972	1%
Media Mail			270,795						158,641	1.7070	0.0000	1.7070	4.0%		
Library Rate			49,972						27,047	1.8476	0.0000	1.8476	3.3%		
Total Media & Library	292,805	0.6%	320,767	109.5%	27,962	0.09%	9.5%	14.27%	185,688				-100.0%	(2,416)	0%
Total Standard Mail (B)	1,903,546	4.2%	2,219,089	116.6%	315,543	1.04%	16.6%	24.77%	1,145,778	1.9368	1.6614	0.2754	5.1%	112,345	4%
<b>Penalty</b>									353,484						0%
Free-for-the-Blind	40,836	0.1%	0	0.0%	(40,836)	-0.13%			46,859	0.0000	0.8715	-0.8715		(2,546)	0%
Total Domestic Mail	41,810,863	92.2%	71,171,514	170.2%	29,360,651	96.75%	70.2%	104.91%	211,755,380	0.3361	0.1974	0.1387	10.0%	2,795,467	94%
International Mail	1,707,632	3.8%	1,917,956	112.3%	210,324	0.69%	12.3%	18.40%	1,205,553	1.5909	1.4165	0.1745	8.4%	4,037	0%
Total All Mail	43,518,495	96.0%	73,089,470	168.0%	29,570,976	97.44%	68.0%	101.52%	212,960,933	0.3432	0.2043	0.1389	9.9%	2,799,505	94%
<b>Special Services</b>															
Registry	58,268	0.1%	98,550	169.1%	40,282	0.13%	69.1%	103.28%	10,331	9.5393	5.6401	3.8991	7.2%	26,925	1%
Certified Mail	507,715	1.1%	696,629	137.2%	188,914	0.62%	37.2%	55.59%	302,882	2.3000	1.6763	0.6237	9.5%	40,735	1%
Insurance	108,792	0.2%	143,868	132.2%	35,076	0.12%	32.2%	48.17%	61,800	2.3280	1.7604	0.5676	9.3%	5,421	0%
COD	13,427	0.0%	17,700	131.8%	4,273	0.01%	31.8%	47.54%	3,100	5.7097	4.3313	1.3784	0.0%	(839)	0%
Money Orders	186,621	0.4%	303,574	162.7%	116,953	0.39%	62.7%	93.63%	229,607	1.3221	0.8128	0.5094	2.8%	372	0%
Stamped Cards	2,884	0.0%	3,408	118.2%	524	0.00%	18.2%	27.14%	170,412	0.0200	0.0169	0.0031	0.0%	(38)	0%
Stamped Envelopes	12,923	0.0%	16,102	124.6%	3,179	0.01%	24.6%	36.75%	400,000	0.0403	0.0323	0.0079	0.0%	46	0%
Box/Caller Service	649,827	1.4%	854,712	131.5%	204,885	0.68%	31.5%	47.10%	17,232	49.6003	37.7105	11.8898	14.5%	132,071	4%
Other	278,455	0.6%	459,831	165.1%	181,376	0.60%								(28,660)	-1%
Total Special Services	1,818,912	4.0%	2,594,374	142.6%	775,462	2.56%	42.6%	63.69%						176,033	6%
Total Mail & Services	45,337,407	100.0%	75,683,844	166.9%	30,346,438	100.00%	66.9%	100.00%	212,960,933	0.3554	0.2129	0.1425	10.0%	2,975,538	100%
<b>Other Costs</b>	28,758,382														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,948)												
<b>Grand Total</b>	<b>74,728,598</b>		<b>76,282,569</b>		<b>1,553,972</b>										

(1) Worksheet TY (PRC COST METHOD)

(3) , (9) Worksheet TY (USPS COST METHOD)

[1] Revenue from worksheet TY (USPS COST METHOD) + revenue change from Worksheet APWU REV IMPACT

Revenue Impact of First-Class Settlement Proposed Rates  
(000's)

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	(1)	(2)	(3)
First-Class Rate Category	Test Year After Rates Volume	Change from USPS Proposed Rate (\$)	Revenue Increase (Decrease)
Single Piece:			
QBRM Letters	323,137	\$ 0.019	\$ 6,140
QBRM Cards	68,337	\$ 0.019	\$ 1,298
Total Single Piece			\$ 7,438
Worksharing - Letters:			
Non-Auto	3,579,306	\$ 0.012	\$ 42,952
Add'l oz.	652,990	\$ 0.005	\$ 3,265
Mixed AADC	2,869,417	\$ 0.021	\$ 60,258
AADC	3,071,405	\$ 0.022	\$ 67,571
3-Digit	24,694,572	\$ 0.026	\$ 642,059
5-Digit	15,517,542	\$ 0.031	\$ 481,044
Carrier Route	870,451	\$ 0.036	\$ 31,336
Add'l oz.	1,288,621	\$ 0.005	\$ 6,443
Worksharing - Flats:			
Mixed AADC	91,996	\$ 0.029	\$ 2,668
AADC flats	49,275	\$ 0.037	\$ 1,823
3-Digit flats	63,015	\$ 0.048	\$ 3,025
5-Digit flats	515,103	\$ 0.009	\$ 4,636
Add'l oz.	1,559,588	\$ 0.005	\$ 7,798
Total Worksharing Letters			\$ 1,354,877
Worksharing - Cards:			
Non-Auto	216,053	0.012	\$ 2,593
Mixed AADC	235,969	0.026	\$ 6,135
AADC Cards	252,580	0.029	\$ 7,325
3-Digit Cards	1,159,708	0.032	\$ 37,111
5-Digit Cards	726,357	0.034	\$ 24,696
Carrier Route	51,601	0.04	\$ 2,064
Total Worksharing Cards			\$ 79,923
Total Worksharing			\$ 1,434,800
Total First-Class			\$ 1,442,238

(1) USPS-LR-J-102

(2) APWU Proposed Rates - USPS Proposed Rates

(3) (1) \* (2)

**Summary of Estimated R00-1 Test Year After Rates Finances  
(PRC Cost Methodology)  
(Thousands Except For Units)**

**EXHIBIT MMA-1A  
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	Vol Variable	% of		Cost	Contrib To	% of	Mark Up		Unit	Unit	Unit	
Description	Cost	(1) / Total (1)	Revenue	Coverage	Oth Costs	Other Costs	Mark Up	Index	Revenue	Cost	Contrib	
	(1)	(2)	(3)	(3) / (1)	(3) - (1)	(5) / Total (5)	(4) - 1	(7) / Total (7)	Volume	(3) / (9)	(11) / (9)	(10) - (11)
First-Class Mail												
Single-Piece Letters	14,684,352	33.88%	22,576,889	153.7%	7,892,537	31.87%	53.7%	94.05%	52,828,895	0.4274	0.2780	0.1494
Presort and Automation Letters	5,305,138	12.24%	13,172,716	248.3%	7,867,578	31.77%	148.3%	259.51%	47,320,291	0.2784	0.1121	0.1663
Total Letters	19,989,490	46.13%	35,749,605	178.8%	15,760,115	63.64%	78.8%	137.97%	100,149,186	0.3570	0.1996	0.1574
Single-Piece Cards	596,907	1.38%	593,094	99.4%	(3,813)	-0.02%	-0.6%	-1.12%	2,838,566	0.2089	0.2103	-0.0013
Presort and Automation Cards	179,644	0.41%	439,378	244.6%	259,734	1.05%	144.6%	253.00%	2,738,884	0.1604	0.0656	0.0948
Total Cards	776,551	1.79%	1,032,472	133.0%	255,921	1.03%	33.0%	57.67%	5,577,450	0.1851	0.1392	0.0459
Total First-Class Mail	20,766,041	47.92%	36,782,077	177.1%	16,016,036	64.67%	77.1%	134.96%	105,726,636	0.3479	0.1964	0.1515
Priority Mail	3,509,283	8.10%	5,680,265	161.9%	2,170,982	8.77%	61.9%	108.26%	1,243,245	4.5689	2.8227	1.7462
Express Mail	699,982	1.62%	1,058,875	151.3%	358,893	1.45%	51.3%	89.72%	72,819	14.5412	9.6126	4.9286
Mailgrams	852	0.00%	1,136	133.3%	284	0.00%	33.3%	58.33%	3,340	0.3401	0.2551	0.0850
Periodicals		0.00%										
Within County	82,487	0.19%	82,709	100.3%	222	0.00%	0.3%	0.47%	880,587	0.0939	0.0937	0.0003
Outside County	2,292,524	5.29%	2,295,034	100.1%	2,510	0.01%	0.1%	0.19%	9,488,154	0.2419	0.2416	0.0003
Total Periodicals	2,375,011	5.48%	2,377,743	100.1%	2,732	0.01%	0.1%	0.20%	10,368,741	0.2293	0.2291	0.0003
Standard Mail (A)												
Regular	6,603,281	15.24%	9,075,572	137.4%	2,472,291	9.98%	37.4%	65.52%	41,000,842	0.2214	0.1611	0.0603
Enhanced Carrier Route	2,586,132	5.97%	5,156,258	199.4%	2,570,126	10.38%	99.4%	173.91%	32,905,893	0.1567	0.0786	0.0781
Total Commercial	9,189,413	21.20%	14,231,830	154.9%	5,042,417	20.36%	54.9%	96.02%	73,906,735	0.1926	0.1243	0.0682
Nonprofit	1,416,304	3.27%	1,520,815	107.4%	104,511	0.42%	7.4%	12.91%	11,463,830	0.1327	0.1235	0.0091
Enhanced Carrier Route	195,818	0.45%	266,550	136.1%	70,732	0.29%	36.1%	63.21%	2,844,821	0.0937	0.0688	0.0249
Total Nonprofit	1,612,122	3.72%	1,787,365	110.9%	175,243	0.71%	10.9%	19.02%	14,308,651	0.1249	0.1127	0.0122
Total Standard Mail (A)	10,801,535	24.92%	16,019,195	148.3%	5,217,660	21.07%	48.3%	84.53%	88,215,386	0.1816	0.1224	0.0591
Standard Mail (B)												
Parcel Post	1,035,737	2.39%	1,189,645	114.9%	153,908	0.62%	14.9%	26.00%	367,601	3.2362	2.8176	0.4187
Bound Printed Matter	492,269	1.14%	560,714	113.9%	68,445	0.28%	13.9%	24.33%	530,951	1.0561	0.9271	0.1289
Special Rate	326,995	0.75%	333,087	101.9%	6,092	0.02%	1.9%	3.26%	203,076	1.6402	1.6102	0.0300
Library Rate	52,130	0.12%	49,804	95.5%	(2,326)	-0.01%	-4.5%	-7.81%	28,403	1.7535	1.8354	-0.0819
Total Standard Mail (B)	1,907,131	4.40%	2,133,250	111.9%	226,119	0.91%	11.9%	20.75%	1,130,031	1.8878	1.6877	0.2001
Penalty									348,543			
Free-for-the-Blind	33,265	0.08%	0	0.0%	(33,265)	-0.13%	-100.0%	-174.99%	56,675	0.0000	0.5869	-0.5869
Total Domestic Mail	40,093,100	92.52%	64,052,541	159.8%	23,959,441	96.75%	59.8%	104.57%	207,165,416	0.3092	0.1935	0.1157
International Mail	1,674,289	3.86%	1,778,959	106.3%	104,670	0.42%	6.3%	10.94%	1,031,627	1.7244	1.6230	0.1015
Total All Mail	41,767,389	96.38%	65,831,500	157.6%	24,064,111	97.17%	57.6%	100.82%	208,197,043	0.3162	0.2006	0.1156
Special Services												
Registry	73,504	0.17%	96,301	131.0%	22,797	0.09%	31.0%	54.27%	10,966	8.7818	6.7029	2.0789
Certified Mail	448,045	1.03%	531,859	118.7%	83,814	0.34%	18.7%	32.73%	279,926	1.9000	1.6006	0.2994
Insurance	77,466	0.18%	97,204	125.5%	19,738	0.08%	25.5%	44.59%	44,783	2.1706	1.7298	0.4407
COD	16,874	0.04%	19,981	118.4%	3,107	0.01%	18.4%	32.22%	3,544	5.6380	4.7613	0.8767
Money Orders *	183,899	0.42%	282,180	153.4%	98,281	0.40%	53.4%	93.52%	239,753	1.1770	0.7670	0.4099
Stamped Cards	3,020	0.01%	8,606	285.0%	5,586	0.02%	185.0%	323.67%	430,277	0.0200	0.0070	0.0130
Stamped Envelopes	10,849	0.03%	16,041	147.9%	5,192	0.02%	47.9%	83.74%	400,000	0.0401	0.0271	0.0130
Box/Caller Service	577,654	1.33%	800,777	138.6%	223,123	0.90%	38.6%	67.59%	17,943	44.6289	32.1938	12.4351
Other	178,098	0.41%	417,676	234.5%	239,578	0.97%	134.5%					
Total Special Services	1,569,409	3.62%	2,270,625	144.7%	701,216	2.83%	44.7%	78.19%				
Total Mail & Services	43,336,798	100.00%	68,102,125	157.1%	24,765,327	100.00%	57.1%	100.00%	208,197,043	0.3271	0.2082	0.1190
Other Costs	25,170,638											
Other Income			687,847									
Prior Years Loss Recovery	311,709											
Continuing Appropriations			67,093									
Investment Income *			(20,168)									
Grand Total	68,819,145		68,836,897		17,752							

## Exhibit MMA-2A

Separate Impacts of USPS Witness Miller's Revisions  
to the PRC Docket No. R00-1 First-Class  
Workshare Cost Savings Methodology

## Revision I - Use of USPS cost attribution methodology instead of the PRC cost attribution methodology

Rate Category	Reduction in Derived Cost Savings
Mixed AADC	-0.89
AADC	-1.09
3-Digit	-1.14
5-Digit	-1.27
Weighted Average	-1.15

## Revision II - Elimination of Cost Pools 1SUPP\_F1 and 1SUPP\_F4

Rate Category	Reduction in Derived Cost Savings
Mixed AADC	-0.16
AADC	-0.16
3-Digit	-0.16
5-Digit	-0.16
Weighted Average	-0.16

## Revision III - Use of Machinable, Non-Automation Letter Delivery Costs instead of Non-Automation Letters

Rate Category	Reduction in Derived Cost Savings
Mixed AADC	-1.86
AADC	-1.86
3-Digit	-1.86
5-Digit	-1.86
Weighted Average	-1.86



Impact of USPS Witness Miller's 3 Changes to the PRC Methodology  
for Deriving Workshare Cost Savings  
(Cents)

EXHIBIT MMA-2A  
Page 2

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Workshare Rate Category	% of Volume	PRC Methodology Cost Savings	Impact of Using USPS Costs 1/	Impact of Eliminating Cost Pools 2/	USPS Assumption on Delivery Costs 3/	USPS Presentation Cost Savings
Mixed AADC	6%	7.99	-0.89	-0.16	-1.86	5.09
AADC	7%	9.08	-1.09	-0.16	-1.86	5.97
3-Digit	53%	9.44	-1.14	-0.16	-1.86	6.28
5-Digit	23%	10.71	-1.27	-0.16	-1.86	7.42
Weighted Average	89%	9.64	-1.15	-0.16	-1.86	6.47

	(7)	(8)	(9)	(10)
First-Class Workshare Rate Category	% of Volume	Unit Costs Using PRC Cost Method 1/	Unit Costs Using PRC Cost Method & Removing Cost Pools 2/	Unit Costs Using Non-Auto Letter Delivery Costs 3/
Mixed AADC	6%	6.0	6.1	7.0
AADC	7%	7.1	7.2	7.8
3-Digit	53%	7.4	7.6	8.1
5-Digit - Other	23%	8.7	8.9	9.3
Weighted Average	89%	7.6	7.8	8.3

- 1/ Impact of using the Postal Service's attributable cost methodology  
2/ Impact of Removing cost pools 1SUPP\_F1 and 1SUPP\_F4 from the analysis  
3/ Impact of using presorted mixed AADC letters as a proxy for BMM letters

- (1) USPS-LR-J-60, page 4  
(2) MMA-LR-J-3  
(3) (6) - (8)  
(4) (8) - (9)  
(5) (6) - (10)

- (6) USPS-LR-J-60, page 1  
(7) USPS-LR-J-60, page 4  
(8) USPS-LR-J-84  
(9) USPS-LR-J-84 with 4 cost pools added back in  
(10) USPS-LR-J-60 with nonauto presorted letters as a proxy for BMM

## Exhibit MMA-3A

First-Class Letter Revenue Impact For  
APWU and Settlement Proposed Rates  
(Assumes No Changes In Volume)

First-Class Letter Revenue Impact For APWU and Settlement Proposed Rates

Rate Category	(1) USPS Proposed Rates w/o Settlement FY '03	(2) Settlement as USPS Proposed Rates 7/1/02 - 9/30/03	(3) APWU Rates (APWU-T-1, Table III) 7/1/02 - 9/30/03	(4) Settlement as MMA Proposed Rates 7/1/02 - 9/30/03	(5) Increased in FC Revenue From APWU Rates
Single Piece	\$ 0.370	\$ 0.370	\$ 0.370	\$ 0.370	
QBRM	\$ 0.345	\$ 0.345	\$ 0.364	\$ 0.340	\$ 0.024
Nonauto letters	\$ 0.352	\$ 0.352	\$ 0.364	\$ 0.352	\$ 0.012
Mixed AADC Letters	\$ 0.309	\$ 0.309	\$ 0.330	\$ 0.309	\$ 0.021
AADC Letters	\$ 0.301	\$ 0.301	\$ 0.323	\$ 0.301	\$ 0.022
Auto 3-Digit Letters	\$ 0.294	\$ 0.294	\$ 0.320	\$ 0.292	\$ 0.028
Auto 5-Digit Letters	\$ 0.280	\$ 0.280	\$ 0.311	\$ 0.278	\$ 0.033
Carrier Route	\$ 0.275	\$ 0.275	\$ 0.311	\$ 0.275	\$ 0.036
Add'l Ounces (for all presort)	\$ 0.225	\$ 0.225	\$ 0.230	\$ 0.225	\$ 0.005
Non-auto Presort Cards		\$ 0.212	\$ 0.224	\$ 0.212	\$ 0.012
Mixed AADC Cards		\$ 0.194	\$ 0.220	\$ 0.194	\$ 0.026
AADC Cards		\$ 0.187	\$ 0.216	\$ 0.187	\$ 0.029
3-Digit Cards		\$ 0.183	\$ 0.215	\$ 0.183	\$ 0.032
5-Digit Cards		\$ 0.176	\$ 0.210	\$ 0.176	\$ 0.034
Carrier Route Cards		\$ 0.170	\$ 0.210	\$ 0.170	\$ 0.040
Single Piece Proposed Increase %	7.37%	7.37%	7.40%	7.36%	
Presorted Proposed Increase %	9.30%	9.30%	18.58%	8.75%	
<b>Impact on First-Class Rates (\$000)</b>					
First-Class Revenue Increase Thru FY 03 1/	2,808,301	3,510,376	5,313,174	3,407,399	1,905,775
Net First-Class Revenue Change of Proposal 2/		702,075	2,504,873	599,098	1,905,775
Gain (Loss) to PS of Proposal thru FY 03 3/			1,802,798	(102,977)	1,905,775
Gain (Loss) to PS of Proposal TY 03 4/			1,442,238	(82,382)	1,524,620
<b>Impact on All Classes and Services (\$000)*</b>					
Revenue Increase Thru FY 03 1/	5,266,466	6,583,082	8,385,880	6,480,105	1,905,775
Revenue Change of Proposal 2/		1,316,616	3,119,414	1,213,639	1,905,775
Gain (Loss) to PS of Proposal thru FY 03 3/			1,802,798	(102,977)	1,905,775
Gain (Loss) to PS of Proposal TY 03 4/			1,442,238	(82,382)	1,524,620

1/ These are the net revenue increases above current rates from 7/1/02 until 9/30/03

2/ These are additional net revenues to the PS under proposals (Col 2,3,4 minus Col 1)

3/ This is the net gain (loss) to the PS compared to its originally proposed rates (Col 3,4 - Col 2)

4/ This is the test year net gain (loss) to the PS compared to its originally proposed rates (fn 3 amount / 1.25)

Note: Revenues shown are for all First-Class, including cards. The additional ounce rate for automation letters is constrained to be the same for non-automation letters and automation flats. The QBRM discount for letters constrained to be the same for cards.

\*Assumes no changes from USPS rate filing



Rate Category	(1)	(2)	(3)	(4)	(5)	(6) Revenue Increase With Settlement			(9)	(10)	(11)	(12)	(13)	(14)
	Billing Determinant (000)	Current Rate (\$)	USPS Proposed Rate (\$)	Settlement Proposed Rate (\$)	Revenue Increase w/o Settlement FY 03	7/1/02 through 9/30/02	10/1/02 through 9/30/03	Total Revenue thru FY 03	Net Revenue Increase By FY 2003	TY Before Rates Volume (000)	TY After Rates Volume (000)	Tot Rev @ Current Rates	Tot Rev @ Settlement Proposed Rates	Change in Avg. Rev per Piece
Single Piece	LR-J-102				((3)-(2))*1	((4)-(2))*1*25	((4)-(2))*1	((6)-(7))	((8)-(5))	LR-J-102	LR-J-102	LR-J-102	((1)*(4))	((11)/(10))-1
QBRM	46,542,285	0.34	0.37	0.37	1,396,268	349,067	1,396,268	1,745,335	349,067				17,220,838	
Additional Ounces	323,137	0.31	0.345	0.34	11,310	2,424	9,894	12,118	808				109,867	
Nonstd Pieces	17,575,735	0.23	0.23	0.23	-	-	-	-	-				4,042,419	
Total Single Piece	942,833	0.11	0.12	0.12	9,426	2,357	9,426	11,783	2,357				113,116	
					1,417,004	353,847	1,415,388	1,769,235	352,231	47,899,389	48,865,402	20,454,237	21,486,039	7.36%
Nonauto letters	3,579,306	0.322	0.352	0.352	107,379	26,845	107,379	134,224	26,845				1,259,916	
Additional Ounces	852,990	0.23	0.225	0.225	(3,265)	(816)	(3,265)	(4,081)	(816)				146,923	
Nonstd Pieces	875,140	0.05	0.055	0.055	4,376	1,094	4,376	5,470	1,094				48,133	
Heavy Pc Deduction	198,933	-0.046	-0.041	-0.041	985	246	985	1,231	246				(8,074)	
Total Non-automation					109,475	27,369	109,475	136,843	27,369	3,679,940	3,579,306	1,331,986	1,446,897	11.68%
Mixed AADC Letters	2,869,417	0.28	0.309	0.309	83,213	20,803	83,213	104,016	20,803				886,650	
AADC Letters	3,071,405	0.28	0.301	0.301	64,500	16,125	64,500	80,624	16,125				924,493	
Auto 3-Digit Letters	24,694,572	0.269	0.294	0.292	617,364	141,994	567,975	709,969	92,605				7,210,815	
Auto 5-Digit Letters	15,517,542	0.255	0.28	0.278	387,939	89,226	358,903	446,129	58,191				4,313,877	
Add'l Ounces	1,250,473	0.23	0.225	0.225	(6,252)	(1,563)	(6,252)	(7,815)	(1,563)				281,356	
Heavy Pc Deduction	86,041	-0.046	-0.041	-0.041	430	108	430	538	108				(3,528)	
Total Auto Letters					1,147,193	266,692	1,068,769	1,333,461	186,268	46,045,879	46,152,936	12,517,783	13,613,663	8.50%
Auto Carrier Route	870,451	0.245	0.275	0.275	26,114	6,528	26,114	32,642	6,528				239,374	
Add'l Ounces	38,149	0.23	0.225	0.225	(191)	(48)	(191)	(238)	(48)				8,583	
Heavy Pc Deduction	3,483	-0.046	-0.041	-0.041	17	4	17	22	4				(143)	
Total Carrier Route					25,940	6,485	25,940	32,425	6,485	911,527	870,451	232,345	247,815	11.69%
Mixed AADC flats	91,996	0.312	0.341	0.341	2,668	667	2,668	3,335	667				31,371	
AADC flats	49,275	0.312	0.333	0.333	1,035	259	1,035	1,293	259				16,409	
3-Digit flats	63,015	0.297	0.322	0.322	1,575	394	1,575	1,969	394				20,291	
5-Digit flats	515,103	0.277	0.302	0.302	12,878	3,219	12,878	16,097	3,219				155,561	
Add'l Ounces	1,559,588	0.23	0.225	0.225	(7,798)	(1,949)	(7,798)	(9,747)	(1,949)				350,907	
Heavy Pc Deduction	311,025	-0.046	-0.041	-0.041	1,555	389	1,555	1,944	389				(12,752)	
Nonstd Pieces	143,545	0.05	0.055	0.055	718	179	718	897	178				7,895	
Total Auto Flats					12,631	3,158	12,631	15,788	3,158	661,867	719,389	512,383	569,681	2.29%
Total Presorted					1,295,239	303,704	1,214,814	1,518,518	223,279	51,299,213	51,322,082	14,594,497	15,878,056	8.75%
Total First Class Letters					2,712,243	657,551	2,630,203	3,287,753	575,511	99,198,602	98,187,484	35,048,734	37,384,096	7.70%
Stamped Cards	170,412	0.21	0.23	0.230	3,408	852	3,408	4,260	852				39,185	
Post Cards at Letter Rates	2,270,775	0.21	0.23	0.230	45,416	11,354	45,416	56,769	11,354				522,278	
Post Cards at Letter Rates	114,887	0.34	0.37	0.370	3,447	862	3,447	4,308	862				42,508	
QBRM	68,337	0.18	0.205	0.200	1,708	342	1,367	1,708	0				13,667	
Total S. P. Cards					53,979	13,409	53,637	67,046	13,068	2,703,008	2,624,411	580,937	617,649	9.50%
Non-auto Presort Cards	216,053	0.19	0.212	0.212	4,753	1,188.29	4,753	5,941	1,188				45,803	
Mixed AADC Cards	235,969	0.174	0.194	0.194	4,719	1,179.84	4,719	5,899	1,180				45,778	
AADC Cards	252,580	0.174	0.187	0.187	3,284	820.88	3,284	4,104	821				47,232	
3-Digit Cards	1,159,708	0.168	0.183	0.183	17,396	4,348.90	17,396	21,745	4,349				212,226	
5-Digit Cards	728,357	0.161	0.176	0.176	10,895	2,723.84	10,895	13,619	2,724				127,839	
Carrier Route Cards	51,601	0.15	0.17	0.170	1,032	258.01	1,032	1,290	258				8,772	
Total Presort Cards					42,079	10,520	42,079	52,599	10,520	2,830,767	2,642,267	498,427	487,651	8.52%
Total Cards					96,058	23,929	95,716	119,845	23,587	5,633,776	5,266,679	1,079,364	1,105,300	9.54%
Total First Class					2,808,301	681,480	2,725,919	3,407,399	599,098	104,832,378	103,454,162	36,128,098	38,469,396	7.90%
Conclusions (\$000):	With expedited implementation, by the end of FY 2003 USPS revenue gains from proposed settlement are:									3,407,399				
	With no settlement, by the end of FY 2003 USPS revenue gains from its original proposals are:									2,808,301				
	Net revenue gain to USPS with Settlement proposed rates from all First-Class Letters:									599,098				
			USPS		APWJ	Difference								
		S.P.	1,470,983		1,469,025	(1,957)								
		Work	1,337,318		1,256,893	(80,424)								
		Total	2,808,301		2,725,919	(82,382)								

Summary of Postal Test Year After Rate Finances  
(000)

Exhibit MMA-3A  
Page 4A

Description	Vol Variable Cost (1)	Revenue (2)	Contrib To Oth Costs (2) - (1) (3)	Mail Volume (4)	Unit Revenue (2) / (4) (5)	Proposed Increase (5) / (11) (6)
First-Class Mail						
Single-Piece Letters	12,425,858	21,878,353	9,452,495	46,865,402	0.4668	7.5%
Presort and Automation Letters	5,436,371	15,990,746	10,554,375	51,322,082	0.3116	9.3%
Total Letters	17,862,230	37,869,099	20,006,869	98,187,484	0.3857	8.0%
Single-Piece Cards	559,631	630,696	71,065	2,624,412	0.2403	9.7%
Presort and Automation Cards	145,835	488,937	343,102	2,642,267	0.1850	8.6%
Total Cards	705,466	1,119,633	414,167	5,266,679	0.2126	9.7%
Total First-Class Mail	18,567,695	38,988,732	20,421,037	103,454,163	0.3769	8.2%
Priority Mail	3,567,868	6,200,084	2,632,216	1,178,757	5.2598	13.5%
Express Mail	494,779	1,133,705	638,926	69,911	16.2164	9.4%
Mailgrams	639	1,131	492	2,725	0.4150	0.0%
Periodicals						
Within County	78,780	82,526	3,746	853,535	0.0967	1.7%
Outside County	2,313,124	2,511,600	198,476	9,108,974	0.2757	10.4%
Total Periodicals	2,391,903	2,594,126	202,223	9,962,509	0.2604	10.0%
Standard Mail (A)						
Regular		11,042,480		47,296,185	0.2335	7.8%
Nonprofit		1,669,063		11,882,923	0.1405	6.6%
Total Regular & Nonprofit	8,689,931	12,711,543	4,021,612	59,179,108	0.2148	7.5%
Enhanced Carrier Route		5,555,656		33,125,689	0.1677	6.2%
Nonprofit ECR		325,210		3,236,397	0.1005	6.5%
Total ECR & NPECR	2,700,570	5,880,866	3,180,296	36,362,086	0.1617	6.1%
Total Standard Mail (A)	11,390,501	18,592,409	7,201,908	95,541,194	0.1946	7.1%
Standard Mail (B)						
Parcel Post	1,040,198	1,202,568	162,370	371,533	3.2368	6.5%
Bound Printed Matter	542,173	695,754	153,581	588,557	1.1821	9.1%
Media Mail		270,795		158,641	1.7070	4.0%
Library Rate		49,972		27,047	1.8476	3.3%
Total Media & Library	279,039	320,767	41,728	185,688		
Total Standard Mail (B)	1,861,411	2,219,089	357,678	1,145,778	1.9368	5.1%
Penalty				353,484		
Free-for-the-Blind	38,344	0	(38,344)	46,859	0.0000	
Total Domestic Mail	38,313,140	69,729,276	31,416,136	211,755,380	0.3293	7.8%
International Mail	1,580,532	1,917,956	337,424	1,205,533	1.5910	8.4%
Total All Mail	39,893,672	71,647,232	31,753,560	212,960,913	0.3364	7.7%
Special Services						
Registry	79,573	98,550	18,977	10,331	9.5393	7.2%
Certified Mail	475,444	696,629	221,185	302,882	2.3000	9.5%
Insurance	108,721	143,868	35,147	61,800	2.3280	9.3%
COD	12,598	17,700	5,102	3,100	5.7097	0.0%
Money Orders	180,160	303,574	123,414	229,607	1.3221	2.8%
Stamped Cards	2,885	3,408	523	170,412	0.0200	0.0%
Stamped Envelopes	12,977	16,102	3,125	400,000	0.0403	0.0%
Box/Caller Service	659,700	854,712	195,012	17,232	49.6003	14.5%
Other	178,511	459,831	281,320			
Total Special Services	1,710,568	2,594,374	883,806			
Total Mail & Services	41,604,240	74,241,606	32,637,366	212,960,913	0.3486	7.9%
Other Costs	32,582,084					
Other Income		589,816				
Prior Years Loss Recovery	632,809					
Continuing Appropriations		30,857				
Investment Income		(21,948)				
Grand Total	74,819,133	74,840,331	21,198			

Summary of Postal Test Year Before Rate Finances  
(000)

Exhibit MMA-3A  
Page 4B

Description	Vol Variable Cost (7)	Revenue (8)	Contrib To Oth Costs (8) - (7) (9)	Mail Volume (10)	Unit Revenue (8) / (10) (11)
First-Class Mail					
Single-Piece Letters	12,678,742	20,803,401	8,124,659	47,899,389	0.4343
Presort and Automation Letters	5,421,560	14,622,580	9,201,020	51,299,213	0.2850
Total Letters	18,100,302	35,425,981	17,325,679	99,198,602	0.3571
Single-Piece Cards	575,141	591,878	16,737	2,703,008	0.2190
Presort and Automation Cards	162,787	499,503	336,716	2,930,767	0.1704
Total Cards	737,928	1,091,381	353,453	5,633,775	0.1937
Total First-Class Mail	18,838,230	36,517,362	17,679,132	104,832,377	0.3483
Priority Mail	3,767,050	5,825,272	2,058,222	1,257,064	4.6340
Express Mail	543,045	1,145,263	602,218	77,239	14.8275
Mailgrams	634	1,131	497	2,725	0.4150
Periodicals					
Within County	78,840	81,338	2,498	855,781	0.0950
Outside County	2,328,417	2,293,977	(34,440)	9,182,082	0.2498
Total Periodicals	2,407,257	2,375,315	(31,942)	10,037,863	0.2366
Standard Mail (A)					
Regular		10,484,194		48,424,553	0.2165
Nonprofit		1,573,085		11,943,287	0.1317
Total Regular & Nonprofit	8,873,596	12,057,279	3,183,683	60,367,840	0.1997
Enhanced Carrier Route		5,351,517		33,873,784	0.1580
Nonprofit ECR		306,890		3,252,519	0.0944
Total ECR & NPECR	2,749,941	5,658,407	2,908,466	37,126,303	0.1524
Total Standard Mail (A)	11,623,537	17,715,686	6,092,149	97,494,143	0.1817
Standard Mail (B)					
Parcel Post	1,158,410	1,232,559	74,149	405,634	3.0386
Bound Printed Matter	546,063	644,734	98,671	594,824	1.0839
Media Mail		261,009		159,100	1.6405
Library Rate		48,498		27,111	1.7889
Total Media & Library	279,129	309,507	30,378	186,211	1.6621
Total Standard Mail (B)	1,983,602	2,186,800	203,198	1,186,669	1.8428
Penalty				353,484	
Free-for-the-Blind	38,290	0	(38,290)	46,859	0.0000
Total Domestic Mail	39,201,645	65,766,829	26,565,184	215,288,423	0.3055
International Mail	1,686,535	1,892,822	206,287	1,289,500	1.4679
Total All Mail	40,888,180	67,659,651	26,771,471	216,577,923	0.3124
Special Services					
Registry	80,198	93,555	13,357	10,515	8.8973
Certified Mail	447,608	595,787	148,179	283,708	2.1000
Insurance	106,952	136,607	29,655	64,165	2.1290
COD	12,588	17,700	5,112	3,100	5.7097
Money Orders	181,638	298,219	116,581	231,804	1.2865
Stamped Cards	3,085	3,647	562	182,342	0.0200
Stamped Envelopes	12,969	16,102	3,133	400,000	0.0403
Box/Caller Service	673,505	746,319	72,814	17,232	43.3101
Other	207,448	417,484	210,036		
Total Special Services	1,725,991	2,325,420	599,429		
Total Mail & Services	42,614,171	69,985,071	27,370,900	216,577,923	0.3231
Other Costs	32,610,852				
Other Income		589,816			
Prior Years Loss Recovery	632,809				
Continuing Appropriations		30,857			
Investment Income		(22,434)			
Grand Total	75,857,832	70,583,310	(5,274,522)		

Source: Exhibit MMA-1A

## Technical Discussion of Workshare Delivery Cost Savings

In this proceeding USPS witness Schenk simply updates the unit delivery cost study that was submitted by USPS witness Daniel in Docket No. R2000-1.<sup>1</sup> In that case, USPS witness Miller utilized the unit delivery cost estimate for non-automation presorted letters as a proxy for the bulk metered mail (BMM) benchmark for deriving workshare delivery cost savings. Because the Postal Service's assumptions regarding workshare delivery cost savings produced reasonable results, the unit delivery cost study provided in Docket No. R2000-1 was not controversial.

In the current case, the issue has become very controversial. The combination of Mr. Miller's use of NAMMA<sup>2</sup> letters – a very different proxy for BMM letters – and his use of unit delivery costs obtained from Dr. Schenk's study virtually *eliminated* delivery workshare cost savings. Consequently, the Schenk delivery cost study came under very intense scrutiny by MMA during discovery. As a result of MMA's scrutiny, the record now shows that there are significant flaws in Dr. Schenk's study. Those shortcomings are discussed in detail below.

### I. **Problems With the Postal Service's Delivery Cost Study**

USPS witness Schenk's study of First-Class delivery costs uses one methodology to estimate delivery costs by shape, and then a different methodology to de-average letter-shaped costs into the various rate categories. For single piece letters, Dr. Schenk uses costs attributed by the Postal Service's LIOCAT system to separate Carrier In-Office costs by shape. Other delivery cost segments are then derived using Carrier In-Office costs and other attribution keys. Finally, the cost segments are then summed, piggybacked and divided by total volumes to obtain an average First-Class single piece delivery cost. Because there are no subcategories within First-Class single piece letters, further de-averaging of single piece letter delivery costs is not necessary.

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<sup>1</sup> In this case, USPS witness Schenk updates the previous study provided by USPS witness Daniel in Library Reference USPS-LR-I-95. Dr. Schenk's study in this case is provided in Library Reference USPS-LR-J-117.

<sup>2</sup> Non-Automation, Machinable Mixed AADC letters.



1 For presorted letters, Dr. Schenk generally follows the same methodology  
2 to derive a unit delivery cost for all presorted letters. I have no problem with her  
3 methodology up to this point. However, she uses an inaccurate methodology to  
4 de-average the derived unit delivery cost for all presort letters into 15 separate  
5 subcategories. As a result, her de-averaged First-Class presorted unit delivery  
6 costs for each of the 15 subcategories are wrong and cannot be relied upon by  
7 the Commission. Moreover, Mr. Miller's adoption of the workshare-related unit  
8 delivery cost for one of those categories, NAMMA letters, should also be  
9 rejected. This is particularly important because Mr. Miller uses Dr. Schenk's  
10 improperly derived delivery unit cost for NAMMA letters as the basis for  
11 establishing workshare cost savings that directly affect the rates for almost **50**  
12 **billion** pieces.

13 Dr. Schenk's methodology for de-averaging First-Class presorted letters  
14 involves a critical first step that is the cause of her problems. She starts out by  
15 computing the FY93 in-office delivery unit costs incurred by city carriers for non-  
16 Delivery Point Sequenced (non-DPSed) presorted letters. This involves the city  
17 carrier unit cost for sorting letters in a non-DPS environment, meaning that the  
18 letters are sorted to carrier sequence manually. Dr. Schenk obtained the total  
19 non-DPS costs from the FY 93 LIOCATT system and divided these costs by the  
20 **total** volumes delivered by the Postal Service in FY 93. Since only a portion of  
21 those volumes were actually sorted and delivered by city carriers, Dr. Schenk's  
22 derived unit cost is, by definition, far too low. Stated another way, her unit  
23 delivery costs are too low because she should have divided total delivery costs  
24 by the portion of those total volumes that were actually delivered by those  
25 carriers, not total volumes.

26 Dr. Schenk admitted that her calculations were based on **total** volumes  
27 that included pieces that did not incur city carrier costs (TR 5/833) and conceded  
28 that that it would be "better" to use city carrier volumes rather than total volumes  
29 (TR 5/835).

30 In response to an MMA interrogatory, the Postal Service provided the  
31 actual city carrier volumes for FY 93. Response to MMA/USPS-3. Table 1

shows a comparison of City Carrier Delivery Costs using Dr. Schenk's flawed methodology.

**Table 1**

**Comparison of First-Class Single Piece and Presorted  
City Carrier Delivery Unit Costs  
As Presented by USPS witness Schenk  
(Cents)**

<b>USPS City Carrier In-Office Costs Using Total Volumes</b>	<b>Single Piece City Carrier In- Office TY Unit Cost</b>	<b>Presorted City Carrier In- Office TY Unit Cost</b>
Non-DPSed Letters	3.00	3.11
DPSed Letters	"not available"	0.50
DPS Savings	NA	2.61

*Source: Library Reference USPS-LR-J-117*

Table 2 shows the same comparison using volumes actually delivered by city carriers (rather than total volumes).

**Table 2**

**Comparison of Corrected First-Class Single Piece and Presorted  
City Carrier Delivery Unit Costs Per Delivered Letter  
(Cents)**

<b>Corrected City Carrier In-Office Costs Using Actual Volumes Delivered</b>	<b>Single Piece City Carrier In- Office TY Unit Cost</b>	<b>Presorted City Carrier In- Office TY Unit Cost</b>
Non-DPSed Letters	6.36	4.11
DPSed Letters	NA	0.15
DPS Savings	NA	3.97

*Source: Workpaper MMA-1*

In Table 1, Non-DPS unit costs ***appear to be*** very similar for First-Class single piece (3.00 cents) and presorted (3.11 cents) because city carrier costs

are spread over total volumes.<sup>3</sup> However, as Table 2 clearly shows, when the city carrier costs are spread over the actual volumes processed and delivered by city carriers, a far different story emerges: single piece letters (6.36 cents) are 2 25 cents or 55% more expensive to process than presorted letters (4.11 cents). Moreover, DPS savings for presorted letters increase by 52%, from 2.61 cents (Table 1) to 3.97 cents (Table 2).

This problem of using the wrong volume figures to compute unit delivery costs is further compounded by Mr. Miller's use of Dr. Schenk's derived unit costs. He simply compares his assumed BMM unit delivery cost (the de-averaged cost of NAMMA that he uses as a proxy for BMM) to those derived by Dr. Schenk for the various automation workshare categories. Since those unit costs are average delivery costs divided by total volumes, not just the volumes processed and delivered by city carriers, such a simple comparison inherently assumes, *incorrectly as it turns out*,<sup>4</sup> that the percentage of total letters delivered by city carriers and rural carriers remains constant over time. Furthermore, there is no evidence to support Dr. Schenk's related assumption that each of the 15 subcategories of presorted letters will exhibit the same breakdown by delivery mode, particularly when the volume within the rate category is quite small. Accordingly, Mr. Miller's computation of workshare delivery cost savings represents a classic apples-to-oranges comparison.

Another problem with Dr. Schenk's methodology is that she used DPS percentages, obtained from USPS witness Miller's mail flow models, as the distribution key for de-averaging delivery costs for all presorted letters. These DPS percentages are far from accurate. Whereas Mr. Miller made a necessary

<sup>3</sup> Because the carrier in-office unit delivery costs derived by Dr. Schenk appeared to be so similar, she could not have known, and was subsequently not aware, that worksharing significantly reduced the unit costs for delivering non-DPSed letters.

<sup>4</sup> The use of total volumes from FY 93 to develop test year unit costs, rather than actual volumes delivered, inherently assumes that the percentage of total volumes delivered by city carriers would remain constant over time. Tr 5/667-670. Dr. Schenk made this assumption without the benefit of knowing what that percentage was for FY 93. Now that actual FY 93 volumes are available, they demonstrate that her inherent assumption is not correct. In FY 93, the presorted volume delivered by city carriers made up 76% of the total volume. In the test year, such letters are projected to make up only 62% of total volumes. See Library Reference MMA-LR-J-2. The Postal Service never even considered whether or not this assumption was true and, if it was not true, what the impact would be.

1 adjustment to reconcile the derived unit costs from those models to the CRA-  
 2 derived unit costs, neither he nor Ms. Schenk made or even considered making  
 3 an adjustment to the model-derived DPS percentages. Considering the fact that  
 4 the model-derived unit cost for non-automation presorted letters is low by 50%,  
 5 there is no reason to believe that Mr. Miller's models have accurately captured  
 6 the degree to which the four subcategories of non-automation machinable letters  
 7 are DPS processed. Moreover, the low model-derived cost estimate implies that,  
 8 if the other input data to Mr. Miller's models are correct, then the DPS  
 9 percentages for his non-automation machinable letter models, which reflect the  
 10 amount of mail processed by automation, are significantly overstated.<sup>5</sup> It should  
 11 also be pointed out that one of those four subcategories is NAMMA letters, the  
 12 category of mail chosen by Mr. Miller as a proxy for BMM letters in his derivation  
 13 of workshare delivery cost savings. Therefore, there is substantial evidence that  
 14 the delivery unit cost provided to Mr. Miller by Dr. Schenk for NAMMA letters is  
 15 understated.<sup>6</sup>

16 The unit delivery cost for NAMMA letters as derived by Dr. Schenk is too  
 17 flawed to be accepted by the Commission. The implementation of the  
 18 methodology that Dr. Schenk used incorporated the wrong FY 93 volume figure  
 19 for deriving city carrier unit delivery costs, and the DPS percentages that she  
 20 relied on for de-averaging presorted unit costs are simply too inaccurate to be  
 21 relied upon.

## 22 **II. Postal Service's Failure to Understand Delivery Cost Causation**

23 USPS witness Schenk seems to be somewhat confused about the specific  
 24 relationship that worksharing has on delivery costs. According to her study,  
 25 letters received by carriers either have been DPSed in the incoming secondary or  
 26 not DPSed. If they are non-DPSed, letters have to be sorted to carrier sequence

<sup>5</sup> Problems associated with the Remote Barcode System (RBCS) as simulated by the Postal Service's mail flow model are discussed in my testimony on behalf of KeySpan Energy. The model understates costs for letters processed within the RBCS by a significant amount. Therefore, the DPS percentages derived under these circumstances are more than likely to be overstated. See Exhibit KE-T-1.

<sup>6</sup> Delivery costs decrease as the DPS percentage increases. If the DPS percentage is overstated, then the unit delivery cost will be understated.

1 manually by carriers. Therefore, non-DPSed letters obviously are much more  
2 expensive for city carriers to process and deliver.

3 In order to examine the impact of worksharing on carrier costs, two  
4 questions need to be considered:

5 (1) If a letter is DPSed by the Postal Service, are the subsequent costs  
6 incurred by city carriers dependent on whether the letter was  
7 originally mailed as single piece or as workshared?

8 (2) If a letter is not DPSed by the Postal Service, are the subsequent  
9 costs (of sorting to carrier sequence and delivery) incurred by city  
10 carriers dependent on whether the letter was originally mailed as  
11 single piece or as workshared?

12 If the answer to **either** of these questions is yes, then Mr. Miller's assumption  
13 that a worksharing rate category such as NAMMA can be used as a proxy for a  
14 non-worksharing category such as BMM is not valid. As discussed below, the  
15 evidence in this case strongly supports the conclusion that the answer to **both**  
16 questions is yes.

17 Dr. Schenk readily admits that the answer to the first question is yes. She  
18 was asked if it would be reasonable to assume that her derived .5-cent unit cost  
19 to process DPSed letters by city carriers (as shown in Table 1 above) would  
20 similarly apply to single piece letters. She denied that such a relationship exists.  
21 She stated that the carrier unit cost for single piece DPSed letters is "not  
22 available" and that she knows of no study that affirms or denies that the unit cost  
23 for processing DPSed single piece and workshare letters would be the same. Tr  
24 5/666; Tr /\_\_\_ (Response to MMA/USPS-T43-20 C). During oral cross-  
25 examination, she further admitted that worksharing does, in fact, impact the  
26 delivery processing cost for DPSed letters. (TR 5/859)

27 Postal data extracted from Dr. Schenk's study strongly supports a  
28 conclusion that the answer to the second question is also yes. When carriers  
29 sort non-DPSed letters, First-Class presorted letters cost significantly less to  
30 carrier sequence than single piece letters. In Table 2 above, the unit costs for  
31 carriers to process Non-DPSed presorted letters (4.11 cents) is much lower than

1 the cost to process single piece letters (6.36 cents). Dr. Schenk could not  
2 explain the 2.25-cent cost difference but admitted that worksharing could explain  
3 it.<sup>7</sup>

4 The Commission should not accept the USPS' apparent position that  
5 worksharing has only a minimal impact on delivery cost causation. While  
6 NAMMA letters meet the stringent requirements that apply to workshare letters,  
7 BMM letters do not. It is unreasonable to equate the two because the record  
8 shows that worksharing reduces carrier costs, regardless of whether the letters  
9 are DPSed or non-DPSed.

10 One simple example illustrates this point. USPS witness Schenk has  
11 testified that the unit delivery cost for single piece metered letters is 5.92 cents.  
12 Tr 5/650. The unit cost that she derives for NAMMA letters, that Mr. Miller  
13 assumes is a proxy for BMM, is 4.08 cents. See Library Reference USPS-LR-J-  
14 60. It is difficult to explain why single piece metered letters should cost almost 2  
15 cents or 45 % more to deliver than BMM, which is a subset of metered letters.

16 The only differences between single piece metered letters and BMM are  
17 (1) BMM letters are brought to the post office in trays and, on occasion might be  
18 uniform, and (2) single piece metered letters are much more likely to be  
19 prebarcoded. Dr. Schenk's explanation for the 1.8-cent difference is "[t]he costs  
20 associated with BMM are not necessarily equivalent to those for all metered  
21 letters". Tr 5/680. When asked orally, she claimed that "I have not studied BMM  
22 letters. It's outside the scope of my testimony. I don't know what causes that  
23 difference." TR 5/864.

24 Frankly, I cannot think of a reasonable explanation for that 1.8-cent  
25 differential either. It simply does not seem possible that when mailers provide

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<sup>7</sup> See TR 5/840. Dr. Schenk was asked what specific factors could cause the FY 93 1.6-cent cost differential between single piece and presorted non-DPSed letters. She could not explain it because she had not studied it. However, she could not rule out the possibility that the difference was caused by worksharing. TR 5/851. This is clearly a case where USPS witness Schenk did not know how USPS witness Miller intended to utilize the data that she provided to him. And Mr. Miller did not know the specific inherent assumptions underlying the data that witness Schenk provided to him. Since Mr. Miller used NAMMA (a workshare category) to estimate BMM (a non-workshare category) delivery costs, Dr. Schenk should have thoroughly examined the impact that worksharing has on delivery cost causation.

metered letters in trays to a post office, delivery costs decrease by 45%. The only logical explanation is that it is inappropriate to assume that a worksharing category can be used as a proxy for a non-worksharing category such as BMM. Worksharing greatly diminishes sorting costs when the letters are sorted by carriers, and BMM is neither prebarcoded nor presorted.

Accordingly, Mr. Miller's assumption that delivery costs for NAMMA letters and BMM are similar is not supportable. The Commission should not accept this assumption unless and until the Postal Service can prove that worksharing has no impact on delivery costs.

### III. MMA's Adjustments to the Commission's Methodology

Library Reference MMA-LR-J-1 is an analysis that implements the Commission's Docket No. R2000-1 workshare cost savings methodology with one change.<sup>8</sup> The mail processing cost savings have not been changed. The only change that I recommend is a necessary correction to USPS witness Schenk's unit delivery cost analysis. I have calculated FY 93 city carrier unit costs for non-DPSed letters using the **actual** volumes processed by city carriers rather **total** volumes that incorrectly include letters that are not even touched by city carriers, as Dr. Schenk did. In addition, I recommend that the Commission use the unit delivery cost for single piece metered letters (with collection costs removed) as a reasonable proxy for BMM letters. That separate delivery cost analysis is provided in Library Reference MMA-LR-J-2.

Table 3 below compares MMA's unit delivery costs to those presented by the Postal Service. It is important to note that each analysis begins with the **exact same** unit costs for all single piece (6.04 cents) and presorted letters (4.17 cents), but it is the manner in which these unit costs are de-averaged that produces significantly different unit costs for the subcategories of letters. My analysis measures unit cost savings per delivered letter. This makes much more sense than the Postal Service's analysis of average costs for **all** letters, including **letters that are not delivered**.

<sup>8</sup> Library Reference MMA-LR-J-3 provides the results of implementing the Commission R2000-1 methodology with no changes.

**Table 3**  
**Comparison of USPS and MMA Unit Delivery Costs**  
**(Cents)**

First-Class Letter Category	Unit Cost Per Total Volume		MMA Unit Cost Per Delivered Letter	
	USPS	MMA	With Collection	W/O Collection
<b>First-Class Single Piece</b>				
Single Piece Letters Stamped	NA	5.66	10.65	9.98
Single Piece Letters Metered	NA	6.30	7.48	<b>6.78</b>
Single Piece Letters Other	NA	7.59	9.02	8.31
Total Single Piece Letters	<b>6.04</b>	<b>6.04</b>	8.96	8.27
<b>First-Class Workshare</b>				
Nonautomation -- Nonmach Mixed ADC	8.41	NA	NA	NA
Nonautomation -- Nonmach ADC	8.41	NA	NA	NA
Nonautomation -- Mach Mixed AADC	4.08	NA	NA	NA
Nonautomation -- Mach AADC	4.08	NA	NA	NA
Nonautomation -- Nonmach 3-Digit	8.41	NA	NA	NA
Nonautomation -- Nonmach 5-Digit	8.41	NA	NA	NA
Nonautomation -- Mach 3-Digit	3.95	NA	NA	NA
Nonautomation -- Mach 5-Digit	3.95	NA	NA	NA
Total Non-Automation	5.94	5.24	NA	6.17
Auto Mixed AADC	4.16	4.17	NA	<b>4.90</b>
Auto AADC	4.01	4.08	NA	<b>4.80</b>
Auto 3-Digit Letters	3.98	4.05	NA	<b>4.77</b>
Auto 5-Digit Letters CSBCS/Man	6.16	5.37	NA	<b>6.32</b>
Auto 5-Digit Letters Other Sites	2.89	3.40	NA	<b>4.00</b>
Total 5-Digit Letters	3.79	3.60	NA	<b>4.23</b>
Auto CR Letters	6.06	5.31	NA	<b>6.25</b>
Total Automation Letters	3.94	4.06	NA	4.78
Total Workshare Letters	<b>4.17</b>	<b>4.17</b>	NA	4.91

Sources: Library Reference USPS-LR-J-117; Library Reference MMA-LR-J-2

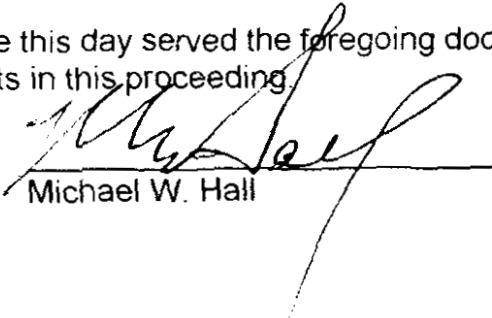
The Commission can use the corrected delivery unit costs as it deems fit. As discussed above, I urge the Commission to use single piece metered letters, with collection costs removed, as a proxy for BMM delivery costs. This makes sense since (1) single piece metered letters are used as a proxy for BMM mail processing costs, (2) there is no reason to expect that single piece and bulk metered letters should have different delivery costs, and (3) it makes sense to use a non-workshare rate category as the benchmark from which to measure



1 workshare cost savings. The unsupported assumption that NAMMA letters  
2 provide a reasonable proxy for BMM should be rejected because that assumption  
3 fails to reflect the specific impact that worksharing has on delivery costs. As an  
4 aside, I also suggest the Commission request that, before the next case is filed,  
5 the Postal Service examine delivery costs, for both DPS and non-DPS letters, to  
6 find out exactly why the delivery of workshare letters cost so much less than non-  
7 workshare letters.

# **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.



Michael W. Hall

Round Hill, VA  
February 20, 2002