

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R-2001-1
POSTAL RATE AND FEE CHANGES)

VOLUME #13

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POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R-2001-1
 POSTAL RATE AND FEE CHANGES)

Room 300
 Postal Rate Commission
 1333 H Street, N.W.
 Washington, D.C.

Volume 13
 Tuesday, February 26, 2002

The above-entitled matter came on for hearing,
 pursuant to notice, at 9:34 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
 HON. RUTH Y. GOLDWAY, VICE-CHAIRMAN
 HON. DANA B. "DANNY" COVINGTON, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:

JOSEPH D. MOELLER
 JAY GILLOTTE
 JOHN D. CRIDER
 RICHARD E. BENTLEY

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Joseph D. Moeller	4958	4976 5023	--	--	--
Jay Gillotte	5025	5041 5087	5090		
John D. Crider	5093	5107 5146	5148	5150	
Richard Bentley	5151 5373	5222 5335 5374			
James A. Clifton	5264	5307	5333		

RULINGS BY THE CHAIRMANPAGE

Ruling certifying to the full Commission pursuant
 to Rule 23(a)(8) five motions of American Postal
 Workers Union AFL-CIO to strike portions of
 surrebuttal testimony

4955

E X H I B I T S

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E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected surrebuttal testimony of Joseph Moeller on behalf of the United States Postal Service, USPS-SRT-1	4958	4960
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1 (No response.)

2 CHAIRMAN OMAS: Mr. Hart?

3 MR. HART: If I may, Mr. Chairman, Henry Hart
4 representing the National Association of Presort Mailers.

5 CHAIRMAN OMAS: Here he is.

6 MR. HART: Here is Mr. Hall.

7 CHAIRMAN OMAS: Mr. Hall?

8 MR. HALL: Thank you very much.

9 CHAIRMAN OMAS: I was just inquiring if you had
10 anything to file with us this morning?

11 MR. HALL: Indeed I do. I haven't had the chance
12 to go to the file room, but I will do so immediately and
13 then provide counsel for APWU a copy.

14 CHAIRMAN OMAS: Well, I'd like to thank you very
15 much for your diligence, as well as Mr. Hart's diligence.
16 The Commission appreciates that.

17 Do any other participants wish to submit a
18 pleading concerning APWU's motions?

19 (No response.)

20 CHAIRMAN OMAS: I'd like to advise that the
21 Commission will rule promptly on these motions.

22 Today, I intend to receive all pre-filed
23 surrebuttal testimony into evidence subject to the pending
24 motion to strike. The surrebuttal witnesses are available
25 this morning for cross-examination on all of their pre-filed

1 testimony. I will expect counsel to engage in whatever oral
2 cross-examination may be necessary to protect their
3 interest.

4 If there is cross-examination on pre-filed
5 testimony that is subsequently stricken as a result of the
6 APWU motion, the associated cross-examination will be
7 stricken from the record.

8 Does anyone have any procedural matters to raise
9 this morning? Ms. Catler?

10 MS. CATLER: This morning, we've also filed an
11 additional motion. This one is in response to the Presiding
12 Officer's Ruling No. 52, --

13 CHAIRMAN OMAS: Right.

14 MS. CATLER: -- which permitted the designation of
15 certain additional interrogatory responses of Witness Miller
16 to interrogatories of KeySpan Energy and the Major Mailers
17 Association over the opposition of the American Postal
18 Workers Union.

19 What we are seeking in this motion is additional
20 responses of Witness Miller to be added to the record as a
21 result of the designations that were authorized yesterday by
22 the Presiding Officer's Ruling 52.

23 CHAIRMAN OMAS: Thank you. I will rule on that
24 motion promptly as necessary.

25 MS. CATLER: Thank you, Your Honor.

1 CHAIRMAN OMAS: Mr. Tidwell, would you introduce
2 your first witness?

3 MR. TIDWELL: The Postal Service calls to the
4 stand Joseph Moeller.

5 CHAIRMAN OMAS: Mr. Moeller, you may be seated.
6 You are already under oath in this case.

7 Whereupon,

8 JOSEPH MOELLER

9 having been previously duly sworn, was recalled as
10 a witness herein and was examined and testified further as
11 follows:

12 CHAIRMAN OMAS: Mr. Tidwell, you may proceed to
13 enter the testimony into evidence.

14 MR. TIDWELL: Good morning, Mr. Chairman.

15 DIRECT EXAMINATION

16 (The document referred to was
17 marked for identification as
18 Exhibit No. USPS-SRT-1.)

19 BY MR. TIDWELL:

20 Q Mr. Moeller, on the table before you are two
21 copies of a document entitled the Surrebuttal Testimony of
22 Joseph Moeller on behalf of the United States Postal
23 Service. It's been designated for purposes of this
24 proceeding as USPS-SRT-1.

25 Was that document prepared by you or under your

1 supervision?

2 A Yes, it was.

3 Q Does that document contain the corrections that
4 were filed with the Commission on yesterday?

5 A Yes, it does.

6 Q And it corrects the date on the top right-hand
7 corner of the first four pages of the testimony to reflect
8 that it actually was filed in the year 2002?

9 A Yes, it does.

10 Q That's what happens when you have attorneys at the
11 keyboard.

12 If you were to provide this testimony orally
13 today, would your testimony be the same as contained in that
14 document?

15 A Yes, it would.

16 MR. TIDWELL: Your Honor, the Postal Service,
17 therefore, then moves that the surrebuttal testimony of
18 Witness Moeller be entered into evidence.

19 CHAIRMAN OMAS: Is there any objection?

20 (No response.)

21 CHAIRMAN OMAS: Hearing none, I will direct
22 counsel to provide the reporter with two copies of the
23 corrected surrebuttal testimony of Joseph D. Moeller. That
24 testimony is received into evidence and will be transcribed
25 into the record at this point.

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-SRT-1, was
4 received in evidence.)
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USPS-SRT-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

SURREBUTTAL TESTIMONY
OF
JOSEPH D. MOELLER
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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Autobiographical Sketch

1 My name is Joseph D. Moeller. I am currently serving as Manager,
2 Classification and Product Development in the Headquarters Marketing
3 Organization of the Postal Service. I joined the Postal Service in 1987 as a Staff
4 Economist in the Rate Studies Division of the Office of Rates, and subsequently
5 worked as a Marketing Specialist for Advertising Mail in Product Management,
6 and as an Economist in Pricing.

7 I have testified on behalf of the Postal Service in several Postal Rate
8 Commission proceedings. In Docket No. R90-1, I presented direct testimony
9 regarding second-class (now termed Periodicals) and third-class (now termed
10 Standard Mail) presort-related and shape-related cost differentials. I also
11 presented rebuttal testimony in that proceeding regarding the third-class
12 minimum-per-piece rate structure. In Docket No. MC93-1, I presented cost
13 estimates and proposed rates for the Bulk Small Parcel Service. I offered
14 testimony in support of the Postal Service's proposals for Standard Mail (A) in
15 Docket No. MC95-1, and in Docket No. MC96-2, Nonprofit Classification Reform.
16 In Docket No. R97-1 and Docket No. R2000- 1, I presented the rate design for
17 Standard Mail (A). In this Docket, I presented testimony on rate policy (USPS-T-
18 29) and Standard Mail Regular and Nonprofit rate design (USPS-T-32).

19 My previous experience includes work as an Industrial Engineer for the
20 Batesville Casket Company of Hillenbrand Industries. My responsibilities
21 included time study analysis of indirect labor. I received a Master of Science

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- 1 Degree in Management in 1986 and a Bachelor of Science Degree in Industrial
- 2 Management in 1983 from Purdue University.

1 **I. Purpose and Scope of Testimony**

2 In response to the testimony of American Postal Workers Union, AFL-CIO
3 witness Michael J. Riley (APWU-T-1), I explain why the Postal Service's First-
4 Class Mail rate design (even as modified in the settlement agreement) in this
5 Docket is consistent with sound ratemaking practice, the criteria of the Postal
6 Reorganization Act, and prior Postal Rate Commission precedent. I also explain
7 how, under the settlement rates, unit contribution to institutional costs for
8 workshared mail exceeds that of non-workshared First-Class Mail, thereby
9 satisfying Mr. Riley's guideline that the former be no less than the latter.

10 There are no Library References or workpapers associated with this
11 testimony.

12

13 **II. First-Class Mail Settlement Proposal**

14 On September 24, 2001, Postal Service witness Robinson (USPS-T-29)
15 proposed a set of First-Class Mail rates for implementation in the Docket No.
16 R2001-1 test year. Her testimony explains how those rates are in accord with
17 established ratemaking principles. Following extensive discussions, the Postal
18 Service and other intervenors in this Docket have reached an agreement that
19 proposes a settlement of the issues raised in this Docket. This settlement
20 proposal has been submitted to the Postal Rate Commission and the concurring
21 parties have requested a Recommended Decision consistent with the terms and
22 conditions of a Stipulation and Agreement that makes very minor adjustments to

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1 the originally requested rates and classifications.¹ As explained in the Stipulation
2 and Agreement, the 56 supporting parties agree that the rates and classifications
3 “represent[] a negotiated settlement of the Postal Service’s Request for
4 recommendations on changes of postal rates, fees and classifications.”² The
5 only party opposing settlement is the APWU, which sponsored the testimony of
6 witness Riley (APWU-T-1).

7 Compared to the Postal Service’s September 24, 2001, Request, the
8 Stipulation and Agreement makes minor changes in First-Class Mail rates.³ The
9 differences are summarized in Table 1 below.

¹ See, Motion of the United State Postal Service Submitting Second Revised Stipulation and Agreement and for the Establishment of a Preliminary Procedural Mechanism and Schedule (December 17, 2001). Although the Stipulation and Agreement was further revised on December 26, 2001, and on January 17, and February 13, 2002, those further revisions did not pertain to First-Class Mail rate design.

² Stipulation and Agreement at 1.

³The Stipulation and Agreement also makes minor changes to the rates and classifications in the Postal Service’s Request for Periodicals, Standard Mail, and Package Services. No party opposes these changes.

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Table 1
First-Class Mail Rates

	Requested (USPS-T-29)	Settlement
<u>Letters and Sealed Parcels Subclass</u>		
Qualified Business Reply Mail Letters	34.5	34.0
3-Digit Automation Letters	29.4	29.2
5-Digit Automation Letters	28.0	27.8
<u>Cards Subclass</u>		
Qualified Business Reply Mail Cards	20.5	20.0

Lastly, the Stipulation and Agreement incorporates an expected implementation date of no sooner than June 30, 2002, considerably before the implementation date originally foreseen by the Postal Service in its Request.

III. Summary of APWU Opposition

In his testimony, APWU witness Riley does not challenge the worksharing cost avoidance estimates of Postal Service witness Miller (USPS-T-22). Mr. Riley "propose[s] that the Postal Rate Commission adopt discounts for First-Class automated and presort mail of 80 percent to 100 percent of the estimated costs avoided by the Postal Service." Tr. 12/4864. He argues that any discounts based on worksharing cost avoidance passthroughs of greater than 100 percent - such as those proposed by Postal Service witness Robinson (USPS-T-29), or those incorporated in the Settlement Agreement -- "violate good management practice and are disruptive to the long-term financial interests of the Postal Service." Id. Witness Riley also criticizes the settlement rates as violating his

1 stated principle that the unit contribution to institutional cost for both workshared
2 and non-workshared First-Class Mail should be equivalent. Tr. 12/4856.

3 To the contrary, as I explain below, the Postal Service's requested rates
4 (even as modified by the settlement agreement) are consistent with the statutory
5 rate-making requirements of section 3622(b) of the Postal Reorganization Act,
6 sound rate-making principles, and past Postal Rate Commission precedent.

7
8 **IV. Good Rate Design Is Not A Mechanistic Application Of One Principle**

9
10 In its Docket No. R87-1 Recommended Decision, the Postal Rate
11 Commission explained its approach to rate design:

12 [4000] . . . Developing rate recommendations in an omnibus rate
13 case involves balancing a great number of factors to derive literally
14 thousands of rates which all must qualify as fair and equitable. Some of
15 these factors are complementary, but others are less so -- there are valid
16 reasons for restraining rate increases for all classes of mail, and arriving at
17 a balanced recommendation is an iterative process.

18 [4001] There is no single set of rates which is so "right" that any
19 deviation from it would produce rates which would be unlawfully unfair or
20 inequitable. But the task of developing a single set of rates which all meet the
21 test of being consistent with the numerous policies set out in the Postal
22 Reorganization Act requires innumerable value judgments.

23 PRC Op., Docket No. R87-1 at 360. The Postal Service's requested rates,
24 including the First-Class Mail rates proposed by witness Robinson (USPS-T-29),
25 were based on a careful consideration of the many factors surrounding the
26 thousands of rates requested consistent with the Postal Rate Commission's
27 stated approach to rate design. Following the Governors' decision to file the
28 Docket No. R2001-1 Request, unprecedented national events, including the
29 terrorist attacks at the World Trade Center and at the Pentagon, and the use of

1 the mails for acts of biological terrorism, have substantially changed the world in
2 which the postal community finds itself. As the Presiding Officer recognized,
3 “unique and unprecedented challenges are facing the Postal Service” suggesting
4 that “cooperative efforts to promptly resolve issues through a settlement might be
5 the right course of action.” Tr. 1/39-40. As a result, the Postal Service
6 coordinated discussions among the intervenors in the current case. The product
7 of those discussions is the filing of a nearly unanimous settlement agreement
8 that has been embraced by a broad coalition of intervenors, including postal
9 service users, mailer organizations, the Office of the Consumer Advocate, and
10 postal competitors – entities whose diverse postal and economic interests often
11 are diametrically opposed. The variety of interests supporting the proposed
12 settlement serves as a barometer of its reasonableness, and of the gravity of the
13 circumstances that have brought together such a diverse coalition.

14 It would be poor public policy for the Postal Service to refuse to consider
15 minor alterations to its September 24, 2001, Request, in the belief that the
16 originally requested rates were the mythical “single set of rates that is so ‘right’
17 that any deviation from it would be . . . unlawfully unfair or inequitable.”
18 Conversely, it would be poor public policy to dismiss the broadly supported
19 Settlement Agreement based on witness Riley’s narrow approach to rate design.

20

21 **A. Passthroughs Greater Than 100 Percent Are Not Unprecedented**

22 APWU witness Riley proposes that First-Class Mail worksharing discounts
23 be set at 80 to 100 percent of USPS witness Miller’s (USPS-T-22) estimated cost

1 avoidances. He claims that "[t]he Postal Rate Commission has consistently
2 encouraged rates that pass through no more than the calculated savings within a
3 sub-class." APWU-T-1 at 17; Tr. 12/4855.

4 The Postal Service understands the Postal Rate Commission's general
5 goal of promoting economic efficiency by setting discounts equal to avoided
6 costs (USPS-T-29 at 9-10); however, in past cases, the Commission has
7 considered a variety of other factors in its determination of the appropriate
8 passthroughs for various workshare discounts. The result has sometimes been
9 passthroughs either significantly above or significantly below estimated cost
10 avoidances, in circumstances where the Commission considered this to be
11 warranted.

12 A review of prior Commission decisions indicates that the Commission has
13 considered factors such as large changes in the results of cost avoidance
14 studies, concern about the impact of rate changes on mailers, concern over the
15 impact of reductions in workshare discounts on the automation program and
16 concern with appropriate rate relationships.

17 For instance, the Commission has recommended passthroughs greater
18 than 100 percent out of concern for the impact of proposed rate increases on
19 mailers. Two recent examples from Docket No. R2000-1 are analogous to the
20 situation at hand. In the first such instance, regarding Standard Mail Enhanced
21 Carrier Route (ECR) and Nonprofit Enhanced Carrier Route (NECR), a 100
22 percent passthrough of the letter/flat differential would have meant significant

1 rate increases for certain categories in NECR. The Commission ultimately
2 concluded that its:

3 recommended treatment of the letter/flat differentials varies from retaining
4 the current percentage passthroughs to passthroughs greater than 100
5 percent to avoid rate shock in adversely affected rate categories.

6

7 PRC Op. R2000-1 at 331.

8

9 The Commission faced the same issue as it designed rates for Automation
10 flats in Standard Mail. There, the Commission concluded that:

11 To avoid undue rate increases for automation flats, and to recognize that
12 the value of these flats will likely be higher in the test year than the Postal
13 Service anticipates in its filing, the Commission recommends the Postal
14 Service's proposed letter/flat passthrough and passthroughs greater than
15 100 percent for automation flats.

16

17 PRC Op. R2000-1 at 349-50. The impact of rate increases on mailers is a factor
18 in postal rate design that should not be ignored. In my opinion, the settlement
19 rates reflect appropriate consideration of this important criterion.

20

21 **B. Good Public Policy Requires the Balancing of Relevant Pricing**
22 **Considerations**

23

24 In his discussion of the Postal Service's First-Class Mail rate design (as
25 modified by the Settlement Agreement), witness Riley focuses solely on cost-
26 based arguments. Although consideration of costs is obviously an important
27 aspect of ratemaking, and should be accorded significant weight, one should not
28 be blind to the other relevant considerations embodied in the ratemaking criteria
29 set forth in the Postal Reorganization Act.

30 For example, on cross-examination, APWU witness Riley was unable to
31 identify the resulting percentage rate increases for each First-Class Mail rate

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1 category implied by application of his prescribed passthrough percentages. Tr.
2 12/4930. Percentage change calculations are a key consideration when
3 evaluating Criterion 4 of section 3622(b). Mr. Riley's acknowledgment that he
4 had not calculated the percentage changes when he appeared before the
5 Commission implies no consideration was given to section 3622(b)(4). In fact, in
6 response to USPS/APWU-T1-7(d), Mr. Riley states that he is "not proposing that
7 the Commission set rates by looking at the percentage change in any rate
8 category." Tr. 12/4896. The Postal Service certainly agrees that percentage
9 change should not be the sole basis for setting rates, if that is what Mr. Riley is
10 stating. However, while advocating the general principle that "[g]ood economics
11 and good public policy require a limit of discounts to a maximum of cost avoided"
12 (Tr. 12/4855), witness Riley fails to consider other factors that should and must
13 be considered in postal ratemaking.

14 For instance, had Mr. Riley calculated his proposed percentage change
15 for First-Class Mail 5-digit automation letters before testifying, he would have
16 known then that, under his 100 percent passthrough scenario, he is proposing a
17 16.1 percent rate increase. And, under his 80 percent passthrough scenario, he
18 is proposing a 22.0 percent increase.

19 Another troubling concern with Mr. Riley's testimony is the implication of
20 the strict adherence to, and limited application of, the principles he espouses.
21 While Mr. Riley's testimony only addresses First-Class Mail, the rigid adherence
22 to the 80 percent to 100 percent passthrough has implications for many other
23 classes. There are a variety of circumstances in this filing where passthroughs

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1 exceed or fall below the 80 to 100 percent parameters set out by Mr. Riley.
2 While he does acknowledge that there might be some instances where even his
3 approach may be tempered, he fails to provide any indication of when and where
4 such temperance should occur. As such, the Commission is left with a
5 mechanistic approach that has unwanted consequences for other classifications.

6

7 **C. The Settlement Rates Are Consistent with the Statutory**
8 **Ratemaking Criteria**

9
10 The rates reflected in the Stipulation and Agreement, resulting from minor
11 changes to the rates originally requested by the Postal Service, are consistent
12 with the ratemaking criteria. The proposed settlement does not materially alter
13 the rate levels for the various subclasses, or the relationships among them, when
14 compared to the Postal Service Request. The 0.2-cent adjustment in two of the
15 requested First-Class Mail automation rates proposed as part of the settlement
16 results in a relatively small reduction in First-Class Mail revenue from workshared
17 pieces. The implicit cost coverages presented in my direct testimony (USPS-T-
18 28) were 294.1 percent for "presort and automation letters" and 176.1 percent for
19 "single piece letters and sealed parcels." Exhibit USPS-28B. This large gap
20 would barely budge if the settlement rates were substituted for the proposed
21 rates.⁴

⁴ Although a volume forecast and rollforward have not been presented for the rates resulting from the Stipulation and Agreement, the relatively small reduction in expected revenue from workshared letters would not significantly change the implicit coverage. However, for illustration, if \$80 million were subtracted from the TYAR revenue (without any volume effect), the implicit cost coverage for workshared letters would be 292.7 percent.

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1 The larger resulting discounts for some categories in First-Class Mail can
2 be justified in light of further consideration of section 3622(b)(4), in that the
3 adjustments in the settlement agreement help temper the rate increases for
4 these categories. Such accommodation is not unreasonable, especially when
5 the Commission considers the expected advancement of the Docket No. R2001-
6 1 implementation date as a part of the settlement agreement, in combination with
7 the recency of the two Docket No. R2000-1 rate increases experienced by
8 workshared First-Class Mail in calendar year 2001. Consideration of such
9 factors also appears consistent with the Commission's authority under section
10 3622(b)(9).

11

12 **V. The Settlement Rates Appear to Meet Witness Riley's Stated Rate**
13 **Design Goal of Comparable Unit Contributions**

14

15 Mr. Riley claims that, in rate design, "the primary focus should be on the
16 absolute contribution per piece, not the percent markup." Tr. 12/4855. He
17 further states that contribution for a piece should be measured "so that the
18 contribution of any piece will be the same regardless of in which rate category in
19 the subclass that piece enters the mail stream." Tr.12/4852. Interestingly,
20 available data indicate that the originally proposed rates, and the settlement
21 rates, come closer to meeting this objective than do Mr. Riley's alternative rates.
22 Under the Postal Service's original Docket No. R2001-1 request, the TYAR
23 contribution per piece for single piece First-Class Mail is 20.18 cents; for
24 workshared First-Class Mail it is 20.56 cents. Tr. 7/1546. The settlement rates
25 would lower the contribution per piece for workshared mail, but the contribution

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1 would still exceed the single piece contribution, and would appear to meet the
2 objective of making unit contributions more comparable, which Mr. Riley seems
3 to advocate.⁵ The Postal Service by no means believes that rate design should
4 be driven by a desire to equalize unit contribution, as measured by CRA-type
5 cost differences. At the same time, as indicated by witness Robinson (USPS-T-
6 29 at 13), these data can provide meaningful information. As the only measure of
7 unit contribution in the filing, the data suggest the proposed and settlement rates
8 are reasonable.

9

10 **VI. The Commission Should Recommend the Settlement Rates**

11 In response to the encouragement of Chairman Omas, the settlement
12 rates are the result of a good-faith effort by almost "everyone connected with this
13 process -- to be statesman-like and to work together to proactively meet the
14 serious challenges facing the postal system." See Tr. 1/42. Although the wide
15 support among intervenors is indicative of the reasonableness of the settlement,
16 the resulting rates also are fully compliant with the Postal Reorganization Act,
17 and should be recommended by the Commission.

⁵ The higher rates for workshared mail proposed by Mr. Riley would move the relative unit contribution figures further apart.

1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination. Only one party has requested oral cross-
3 examination, the American Postal Workers Union.

4 Is there any others who would wish to cross-
5 examine this witness?

6 (No response.)

7 CHAIRMAN OMAS: There being none, Ms. Catler,
8 would you please begin?

9 MS. CATLER: Thank you, Mr. Chairman.

10 CROSS-EXAMINATION

11 BY MS. CATLER:

12 Q Mr. Moeller, is this the first time you have
13 testified concerning first class mail?

14 A Well, my testimony in this case, T-28, involved
15 all the classes of mail with regard to rate levels.

16 Q Is that the only other testimony you filed
17 concerning first class mail?

18 A I believe so, yes.

19 Q Have you ever worked on first class rates or rate
20 design prior to preparing this testimony?

21 A I guess by saying worked on, you're distinguishing
22 that from filing testimony regarding the first class rate
23 design?

24 Q Yes.

25 A It depends on how you define worked on. Certainly

1 I've had interaction with people who were preparing the
2 testimony for first class mail.

3 Q Okay. On your testimony at page 1, line 18, you
4 state that you presented testimony on rate policy USPS-T-29.
5 Do you mean T-28 there?

6 A Yes.

7 Q I'm sure that your counsel will make the
8 appropriate thing to say to go and get that corrected.

9 MR. TIDWELL: I think you just did.

10 MS. CATLER: Okay.

11 BY MS. CATLER:

12 Q Turning to page 5 of your testimony, and I'm
13 having a little trouble because I prepared this off of your
14 original one. I want to make sure I'm still looking at the
15 right line numbers.

16 At lines 4 through 6, you talk about the
17 implementation date of no sooner than June 30, 2002. When
18 did the Postal Service anticipate implementation of new
19 rates based on R-2001-1 without the proposed stipulation and
20 agreement?

21 A I believe the filing anticipated an implementation
22 date near the beginning of the fiscal year 2003.

23 Q So when would that be approximately in calendar
24 terms?

25 A October, 2003.

1 Q So early October?

2 A Late September/early October.

3 Q Okay. And can you tell us when the Postal Service
4 with the proposed stipulation and agreement anticipates the
5 implementation date? Is the anticipation June 30, 2002?

6 A No sooner than June 30, 2002.

7 Q Have you or to your knowledge has anyone at the
8 Postal Service calculated how much additional revenue will
9 be received by the Postal Service as a result of earlier
10 implementation?

11 A Certainly part of the decision process on the
12 various parties in order to sign onto this agreement was
13 some kind of recognition of what it meant in terms of
14 additional revenue.

15 I've heard figures of \$1 billion being the
16 incremental revenue that would be achieved through early
17 implementation.

18 Q Are you talking about \$1 billion in fiscal year
19 2002 in that case?

20 A That's covering the period of time between when
21 the rates are implemented and when they would have
22 potentially been implemented under circumstances if the case
23 had run its normal course.

24 Q Do you know what day fiscal year 2002 actually
25 ends?

1 A Well, are you talking government fiscal year or
2 Postal fiscal year?

3 Q The one that the rates are worked around.

4 A Fiscal year 2002 ends in September.

5 Q Okay. Will the amount that you expect to be
6 brought in by early implementation of the R-2001-1 rates be
7 sufficient to permit the Postal Service to pay its bills
8 through fiscal year 2002 without raising the permitted debt
9 ceiling about \$15 billion?

10 A You know, I don't know the answer to those
11 questions. I know that obviously an early implementation
12 will achieve the goal I think all the parties had was to
13 help the Postal Service in these difficult situations.

14 Q Well, if you don't know whether it will in fact
15 get you through the fiscal year, how can you be their policy
16 witness endorsing the rates?

17 A Well, I think if you look at my testimony it's
18 merely responding to Witness Riley's testimony about a
19 couple of comments or conclusions he reaches in his
20 testimony.

21 I'm not intended to be here to present the
22 financial situation of the Postal Service and how it might
23 be affected by an early implementation date.

24 Q Well, but you do testify that these rates satisfy
25 the statutory requirements for rate setting, don't you?

1 A In my testimony I say that the settlement rates
2 are consistent with rate making criteria.

3 Q And isn't it consistent with rate making criteria
4 to worry about whether the Postal Service can pay its bills
5 through the end of the fiscal year?

6 A Well, the stipulation and agreement I think keeps
7 our proposal with the test year in question, 2003 being the
8 test year.

9 What I mean when I say that it's consistent with
10 the rate making criteria, that means given the facts of the
11 case that have been agreed upon when you look at the test
12 year finances and you incorporate what might potentially be
13 the case with the stipulated rates or the rates that are in
14 the stipulation and agreement, you would see that it is
15 still consistent with the rate making criteria.

16 Q Will early implementation permit the Postal
17 Service to take the freeze off of capital expenditures?

18 A Again, that's beyond the scope of my testimony. I
19 know obviously all else equal, having that money earlier
20 helps.

21 Q But you don't know whether it's going to be
22 sufficient to pay the bills, let alone go and permit the
23 Postal Service to go and take the freeze off the capital
24 expenditures?

25 A I can't speak for how the Postal Service is going

1 to spend its money on capital projects.

2 (Pause.)

3 MS. CATLER: With the Chairman's permission, I'd
4 like to show the witness a portion of the annual report from
5 2001 of the United States Postal Service. I have copies for
6 the Commission and certainly for Mr. Tidwell.

7 I know this looks a little strange to me the way
8 this is set up, but we took this off of the Postal Service's
9 web page.

10 BY MS. CATLER:

11 Q I'd like you to turn to page 2 of 5 pages here and
12 look at the top paragraph there. It states, for the record,
13 "Recognizing a slowdown in our cash flow from..." --

14 CHAIRMAN OMAS: Excuse me, Ms. Catler.

15 MS. CATLER: Yes?

16 CHAIRMAN OMAS: We must be working off of a
17 different set. My page 2 at the top has a graph.

18 MS. CATLER: I'm sorry. It's the paragraph. Yes.
19 It's the paragraph entitled Capital Freeze. It's at the
20 bottom of the page.

21 COMMISSIONER GOLDWAY: At the bottom of page 2?

22 MS. CATLER: Yes. It's the first and only
23 paragraph on the page.

24 CHAIRMAN OMAS: All right.

25 MS. CATLER: This is a paragraph entitled Capital

1 Freeze in the Postal Service's annual report. It states:

2 "Recognizing a slowdown in our cash flow from
3 operations, we significantly reduced the capital commitments
4 we had planned for 2001 in order to conserve cash and remain
5 within our borrowing authority. Initially, we reduced our
6 capital commitment budget from \$3.6 billion to \$1.6 billion,
7 a total of \$2 billion as detailed in the table below.

8 "However, we ended the year with actual capital
9 commitments of \$1.2 billion as management further tightened
10 the capital investment process. The actual commitments were
11 spread across the following categories: Approximately \$450
12 million for mail processing equipment, \$370 million for
13 facility construction and building purchases and
14 improvements, \$220 for postal support equipment, and \$110
15 million for retail equipment and vehicles."

16 The second paragraph states, "We placed a
17 temporary hold on capital contract awards, including over
18 800 facility projects nationwide. In addition, we
19 reprioritized all capital projects and issued revised 2001
20 capital budgets.

21 "We assigned the highest priority to investments
22 related to the safety of our employees and customers, legal
23 requirements, emergencies and investments that produce labor
24 efficiencies. We placed a freeze on all other facilities.
25 We are monitoring the effects of this freeze, and we'll make

1 the necessary adjustments to insure we meet our priorities."

2 BY MS. CATLER:

3 Q In your statements in your testimony where you
4 talked about balancing the interests of the mailers and the
5 other parties as required by the statute, did you take into
6 account the effect on the Postal Service's capital
7 expenditures of the rates that you are endorsing?

8 A I balanced the criteria of the Act. I looked at
9 that and matched it up with the rates that are there and the
10 effect of those rates. I don't believe there's any explicit
11 mention of capital spending in that.

12 (Pause.)

13 MS. CATLER: With the permission of the Chairman,
14 I'd like to give the witness a copy of 39 USC, Section 3622
15 and 3621. I have copies for the Commission, as well as for
16 Mr. Tidwell. I've put them in reverse order. 3621 is
17 behind 3622.

18 BY MS. CATLER:

19 Q At the top of page 4 of the exhibit I previously
20 gave you from the annual report, the 2001 annual report, the
21 report goes on talking about the future capital
22 expenditures, and it states at the end of the paragraph at
23 the top of the page:

24 "While we will continue to plan for projects that
25 will generate productivity improvements and increase

1 revenue, for the second year in a row we will not be able to
2 make the necessary capital investment to meet the growth
3 demands of universal delivery."

4 Mr. Moeller, did you take this into account when
5 you were endorsing the rates in light of the requirements in
6 Section 3621, as well as 3622?

7 A Okay. The rate level witness knows what the
8 revenue requirement is. All that is determined by some
9 other process.

10 We look at the rates proposed and the rate levels
11 for the various subclasses that are needed to meet a revenue
12 requirement.

13 Q So the answer is no?

14 A It was not the scope of my testimony to determine
15 what the revenue requirement was supposed to be or should
16 be.

17 Q Okay. And I take it you also didn't take into
18 account the increase of debt of the Postal Service that
19 would result from the adoption of the proposed stipulation
20 and agreement, looking perhaps at the bottom of page 4 of
21 the annual report?

22 A Again, we're given the revenue requirement that
23 incorporates a number of things, and then we come up with
24 the rates that achieve that revenue requirement.

25 Q Okay. So the answer is no?

1 A It was not part of the scope of my testimony to
2 determine that.

3 Q Okay. On page 8 of your testimony at lines 7
4 through 9 you state that, "The Postal Service understands
5 the Postal Rate Commission's general goal of promoting
6 economic efficiency by setting discounts equal to avoided
7 costs." Do you see that?

8 A Yes.

9 Q Is this also the Postal Service's general goal?

10 A Yes.

11 Q Does this mean that in the long run the Postal
12 Service should not be setting discounts for work sharing
13 greater than the costs avoided by that work sharing?

14 A I think this speaks to the widespread agreement
15 that there is a goal of promoting economic efficiency, and
16 that involves discounts, giving a signal to mailers to
17 perform work in certain situations, but the sentence goes on
18 to note that there are other factors also that need to be
19 waived when the actual rates are proposed or recommended.

20 Q Right, but if it's the general goal to go and have
21 them set equal to avoided costs does that mean in the long
22 run that the Postal Service should not be setting discounts
23 for work sharing greater than costs avoided by that work
24 sharing?

25 A I think in every situation when it comes time to

1 propose rates you look at the situation at hand and perform
2 a weighing of the various rate design considerations, and
3 you make a decision then.

4 Q Then what is in the long run interest of the
5 Postal Service in setting these goals with respect to cost
6 avoided, these rates with respect to cost avoided?

7 A I'm not sure there's a horizon placed on this
8 general notion that that's one of the general goals short
9 term, long term. It's a goal.

10 Q But why would it be in the interest of the Postal
11 Service certainly in the long run?

12 I can see, you know, if there was a short term
13 problem; for example, you didn't have any capacity to do
14 something, that perhaps you would want to. In that case,
15 your cost avoided wouldn't be actually less because you
16 couldn't avoid the cost.

17 Let me start over again. Why is it in the long
18 run interest of the Postal Service to pay more in discounts
19 than it would cost to do something in-house?

20 A You mentioned long run there again. I think it
21 keeps coming back to when you do rate design you're
22 presented with a number of pieces of data, and you have rate
23 design constraints. You've got rate design goals. You
24 balance all of those inputs, and you come up with rates.
25 I'm not speaking to the long run implications of anything

1 here.

2 Q All right. I'll leave the long run out of it.
3 I'm going to ask you the question again without long run in
4 it.

5 Why is it in the interest of the Postal Service to
6 pay more in discounts than it would cost the Postal Service
7 to do the work in-house?

8 A I'm trying to think of how to phrase this in a way
9 that answers your question.

10 I think it's in the interest of the Postal Service
11 to come up with rates that are consistent with the rate
12 making criteria, and one of those considerations is impact
13 on mailers, so it's in the interest of the Postal Service to
14 present rates that meet those criteria.

15 If in certain situations that has by some
16 particular measure of the cost discounts which exceed those
17 identified costs, then that's the outcome of the situation
18 where you weigh all these various considerations.

19 Q And how does the impact on the Postal Service
20 figure into this weighing and balancing?

21 A Well, with particular regard to the pass through
22 selection exercise, which is part of the rate design
23 exercise --

24 Q I'm sorry. The what exercise?

25 A The pass through.

1 Q The pass through? I'm sorry.

2 A The pass through selection.

3 Q Yes.

4 A The rate design is to come back to the total
5 revenue required for that subclass, so setting the discounts
6 at various pass through levels. The impact on the Postal
7 Service in terms of total revenue is constant because you
8 have to tie back to the total revenue that you're seeking
9 from that class of mail.

10 Q But you also said the amount of total revenue
11 you're seeking from that class of mail. I mean, this is a
12 process that goes back and forth, doesn't it?

13 I mean, if you unrealistically set the amount of
14 revenue expected from a class of mail to be close to
15 nothing, I mean to be too low, then, I mean, that could
16 justify setting rates below their institutional cost. I
17 mean below their attributable costs. That can't possibly be
18 right.

19 The amount of each category has to be related.
20 You have to adjust that based on what you find out about,
21 you know, in this case cost avoided.

22 A The only 100 percent hurdle is that the subclass
23 itself cover its costs. When rate design begins for a given
24 class there's a total revenue target, and then within that
25 discounts are calculated such that the total revenue from

1 that subclass still comes back to that same amount.

2 There may be iterations within that, but generally
3 there's a target for the subclass that meets the criterion
4 of the subclass covering its cost.

5 Q Okay. In this case you were arguing even before
6 the proposed stipulation and agreement added two-tenths of a
7 cent more to two of the discounts, the three and five digit
8 presort pre-bar coded rates, that discounts should be
9 greater than the costs avoided by the work sharing. Why
10 were you arguing that?

11 A Well, I wasn't arguing anything. I think you're
12 referring to Witness Robinson's testimony about the first
13 class rate design where she noted and selected discounts; in
14 particular the ones you've mentioned here, the three digit
15 and the five digit automation discounts. Her testimony
16 covers the reasons behind the appropriateness of those
17 discounts.

18 Q But didn't your initial testimony also build some
19 of that in?

20 A My initial testimony assigned a cost coverage or a
21 mark up target to first class mail. I wasn't testifying to
22 the various rate elements within first class mail.

23 Q Okay. Thank you. What are the special
24 circumstances in this case justifying setting discounts for
25 work sharing greater than the costs avoided by that work

1 sharing?

2 A Well, in our original proposal those reasons were
3 explained by Witness Robinson, and she was cross-examined on
4 her testimony already.

5 Q I remember that.

6 A So I think that's already been covered on the
7 record. I'm not here to testify to the original rate design
8 for first class mail. It's already been entered on the
9 record.

10 Q All right. Well, what about the initial
11 two-tenths of a cent? You clearly are here to talk about
12 that.

13 A Right.

14 Q She didn't go and endorse that in her testimony.

15 A I think you had a discussion with her during her
16 cross-examination.

17 Q Yes, I did. Yes.

18 A But certainly I do say in my testimony that even
19 the settlement rates are consistent with the rate making
20 criteria.

21 Q Okay. Following up on that, what are the special
22 circumstances in this case justifying setting the discounts
23 for work sharing greater than the costs avoided by that work
24 sharing?

25 A First of all, the implication of going to the

1 additional two-tenths of a cent is to add I believe three
2 percentage points to the pass through for those two rate
3 elements in question, the three digit and the five digit
4 automation, so that in itself is not a major change in the
5 pass through, the effective pass through for those two rate
6 categories.

7 I think there are a lot of special circumstances
8 of why we're at this stage in this proceeding. I note in my
9 testimony that the effect of those two-tenths of a cent for
10 that mail has very little effect on the cost coverage for
11 first class mail, which to me by extension means that it's
12 consistent with the rate making criteria, and it doesn't
13 change the relationship that much between the implicit
14 coverages of the two groupings within first class mail.

15 Q Are you saying that that \$80 million or
16 thereabouts, which I believe you do state somewhere in your
17 testimony is about what this is going to cost the Postal
18 Service in rates that might not otherwise be received, that
19 that is a small price to pay to get the parties to sign onto
20 the proposed stipulation and agreement? Is that what you're
21 trying to say?

22 A I think a great majority of people involved in
23 this case recognize the situation at hand. The parties who
24 have signed see that \$80 million, and they see that \$1
25 billion that is going to come in early. The Postal Service

1 and other parties signed onto that agreement.

2 Q Let me make sure this is still in the same place.
3 Page 9, lines 19 to 21 of your testimony. You state, "The
4 impact of rate increases on mailers is a factor in postal
5 rate design that should not be ignored. In my opinion, the
6 settlement rates reflect appropriate consideration of this
7 important criterion."

8 How did you ascertain the impact of potential rate
9 increases in this case on mailers?

10 A Well, one of the things you do when you're
11 assessing the impact on mailers is you calculate what the
12 percentage change is, and I see the effect of percentage
13 changes that were going to be implied by these settlement
14 rates.

15 You look at that percentage change versus say the
16 system average change, and you look at the dates of other
17 rate implementations and the rate history here of what
18 percentage changes have been incurred for various
19 categories, so that's how I -- those were the inputs to my
20 consideration regarding impact.

21 Q Did you analyze whether decreasing the discounts
22 for work sharing to the actual savings of work sharing would
23 affect mailers who presort and bar code as part of their
24 production of mail pieces?

25 A When I saw the rates Mr. Riley presented in his

1 testimony and did a calculation of percentage change, I felt
2 that there was a significant percentage change that would be
3 imposed upon those particular categories of mail.

4 When I see an 18 or 20 percent increase when the
5 overall is 8.7 percent, that stands out as something that
6 might be a significant impact on that grouping of mail and
7 mailers.

8 Q But you didn't look at anything other than the
9 percentage change in rates when you were determining what
10 the impact of the rates would be? Is that right?

11 A No. I also looked at the timing. I talked about
12 in my earlier response about the fact that there was an
13 increase in January of 2001 and June of 2001 and now another
14 one coming up potentially as early as June 30, 2002.

15 Q Okay. Did you analyze whether decreasing the
16 discounts for work sharing to actual savings of work sharing
17 would affect mailers who send their mail to presort bureaus
18 for presorting and bar coding and how it would affect them?

19 A I didn't look at individual mailers and determine
20 what actions they may or may not take if they were faced
21 with a particular rate change, but on its face somebody is
22 paying those rates if there's an 18 or 20 percent increase.

23 Q But people who are producing their own mail pieces
24 as part of the production process. It comes out pre-bar
25 coded and presorted.

1 I mean, when I went to the door to get my mail
2 handed me by the letter carrier on Saturday he handed me my
3 gas bill, and on top of the mail for the guy next door was
4 his gas bill, and I'm sure that everybody on the street got
5 their gas bill. That didn't go to some presort bureau.
6 They print them in that order and in that way.

7 Did you look to see what the effect of changing
8 the rates to being actual savings for folks who have their
9 systems just set up already to go and pre-bar code and
10 presort their mail would be?

11 A I didn't look at any individual customers. Again,
12 I'm not testifying to the original first class rate design,
13 but the discount is there. What people do to meet the
14 requirements for that discount is up to them. If they're
15 able to do it at a much lower cost than the discount or some
16 other amount, they'll take advantage of the discount.

17 Q Well, that's an interesting question. I mean, if
18 they're doing it as part of their production process, and
19 keep in mind the gas company, they have to print bills if
20 they're going to send them in the mail, and they have to
21 print them in some order. They clearly have their computers
22 programmed to print them out in at least carrier route or at
23 least, you know, zip code. They probably do it in walk
24 sequence for all I know.

25 How is, you know, the changing of the rates going

1 to go and affect whether they're going to continue to
2 pre-bar code and presort their mail?

3 A Well, regardless of how they prepare it, they're
4 going to be paying postage on that mail. Taking a rigid
5 approach to the rate design would put a 20 percent rate
6 increase on them.

7 Q So really when you talk about impact, all you're
8 really talking about is the financial impact of paying the
9 higher rates by the mailers? Is that right?

10 It is not how it might change their decision
11 making process of using discounts or anything of that sort,
12 but it's purely these guys are going to have to pay more
13 money?

14 A In this particular circumstance, but there are
15 certainly situations where you would not want to have the
16 discounts going up and down and back and forth from case to
17 case that would cause people to continually have to change
18 the way they present the mail. There is some benefit to a
19 consistency in the discounts.

20 Q If the cost avoided is decreasing because the cost
21 of doing it by the Postal Service is decreasing, don't the
22 discounts need to be going in the same direction, as in
23 decreasing?

24 A I think every time we make a rate proposal there's
25 a cost study done, and that cost study should incorporate

1 the phenomenon you're speaking of. Then that information
2 goes to the rate design witness, along with all of the other
3 considerations that he or she has, and some rates are
4 proposed.

5 Q And you're the rate design witness?

6 A For standard mail regular I was the rate design
7 witness.

8 Q Okay. At pages 9 through 10 of your testimony,
9 lines 28 and 29 of page 9 and 1 and 2 of page 10, you state:

10 "Although consideration of cost is obviously an
11 important aspect of rate making and should be accorded
12 significant weight, one should not be blind to the other
13 relevant considerations embodied in the rate making criteria
14 set forth in the Postal Reorganization Act."

15 What are the other relevant criteria that you
16 considered, and what weight did you give each?

17 A I think in my testimony I particularly speak of
18 the impact on mailers again, which we have been discussing,
19 and earlier in my testimony I cite some PRC decisions.

20 Again, I think I'm working from a different copy
21 with line numbers here also, but in the middle of page 6 of
22 my testimony --

23 Q Do you think you're working on the old one or the
24 new one?

25 A I think it's the older one. It's probably towards

1 the -- I don't know. It's the paragraph that is single
2 spaced. The second paragraph there is what I'm looking at
3 right now.

4 Q Okay.

5 A "The task of developing a single set of rates
6 which all meet the test of being consistent with the
7 numerous policies set out in the Postal Reorganization Act
8 requires enumerable value judgements," so that gets to my
9 point about, for instance, the phrase numerous policies
10 means you can't just look at one aspect, in this situation
11 100 percent pass through, and just ignore the other
12 policies.

13 Again, I was reading from the Commission's
14 decision in R-87.

15 Q Fine, but what are the other relevant criteria
16 that you considered, and what weight did you give each? You
17 clearly took into consideration the percentage change that
18 would be faced by particular mailers.

19 A Right.

20 Q What other relevant criteria did you consider, and
21 what weights did you give each?

22 A All right. Personally, when I came up with the
23 cost coverage for first class mail I went through the
24 criteria as explained in my T-28 testimony.

25 Within first class mail, when Witness Robinson did

1 the rate design she considered a number of factors, and
2 that's in her testimony.

3 Q Right.

4 A My testimony here is just to say that you can't
5 ignore those many factors and go with just one.

6 Q But you're really going with only one, and that's
7 percentage change, isn't it?

8 A I don't think so because my task isn't to develop
9 the rates for first class where I would consider more of
10 those things. I'm merely explaining why.

11 That's just the one I mentioned that you should do
12 in addition to the 100 percent pass through guideline that's
13 been espoused.

14 Q I'm asking is there anything else that you believe
15 that you did take into consideration or that you believe you
16 should take into consideration?

17 A My testimony speaks to the (b)(4) criterion, which
18 talks about impact on mailers. I also mention (b)(9), which
19 is --

20 Q Actually, I gave you a copy of 3622, and my next
21 question was going to be about 3622(b)(4), which when I read
22 it says, the part from (b) that starts, "Upon receiving a
23 request, the Commission shall make a recommended decision on
24 a request for changes in rates or fees in each class of mail
25 or type of service in accordance with the policies of this

1 title and the following factors."

2 Factor 4 is, "The effect of rate increases upon
3 the general public, business mail users and enterprises in
4 the private sector of the economy engaged in the delivery of
5 mail matter other than letters."

6 I don't see anywhere in there that it says that
7 percentage change calculations are a key consideration when
8 evaluating Criteria 4 of Section 3622(b), which is what
9 you've said at now it's lines 6 and 7 of page 10 of your
10 testimony.

11 A You're correct. The words percent change do not
12 show up in that paragraph. However, it seems obvious to me
13 that when you look at the effect of a rate increase one way
14 to measure the rate increase itself and what effect it might
15 have would be a calculation of percentage change.

16 Q But that's only one way. You're telling me that
17 you don't think you need to look at anything else besides
18 percentage change?

19 A Well, in particular I did mention earlier about
20 the timing of the various rate increases and the magnitude
21 of previous increases, but again we're not looking at this
22 just in isolation. That's one way to look at the effective
23 rate increases.

24 Q Now, on page 10 you focus on percentage change
25 increases. Why shouldn't lower discount rates increase a

1 greater percentage when the costs avoided by work sharing
2 are declining?

3 A Could you ask that again? I'm sorry.

4 Q Well, the discount rates are lower than the
5 undiscounted rates, right?

6 A The rates that reflect some work share discount
7 are lower than those rates that do not have a discount
8 incorporated in them.

9 Q Okay. So when the costs avoided by work share are
10 declining, shouldn't the lower work share discount rates go
11 up at a faster percentage rate than the higher, non-
12 discounted rate?

13 A I think mathematically if the discount gets
14 smaller that's going to be the outcome. The percentage
15 change for the discounted piece will be greater than the
16 non-discounted piece.

17 Q Right. It's true that mathematically if the
18 discount rates are lower and if the lower discount rates and
19 the higher full first class rates are increased by the same
20 percentage, won't the absolute difference between the rates
21 continue to grow despite the decline in cost avoidance?

22 A If the percentage changes -- are you asking me if
23 the percentage changes are to remain exactly the same for
24 the two groupings?

25 Q If you were to go and increase both sets of rates,

1 the lower discounted rates and the higher first class rates,
2 by the same percentage, wouldn't the absolute difference
3 between the rates continue to grow?

4 A Mathematically, that is the outcome.

5 Q Right. So despite there being a decline in cost
6 avoidance, you would have the rates growing absolutely at a
7 smaller rate.

8 If you focus only on equal or the percentage
9 increase when you have ones at different bases, doesn't that
10 cause a long term -- you know, they're diverging in the
11 wrong way.

12 A Well, again my target isn't to come up with the
13 same percentage changes. It's to look at the percentage
14 changes that result from the rates and assess whether there
15 is an impact there that is inconsistent with the criteria of
16 the Act.

17 In our proposal, we had proposed a larger
18 percentage increase for work share than single piece,
19 significantly larger, and larger than the system average.
20 The settlement rates still have that relationship. There's
21 a larger percentage increase for the work share mail than
22 the single piece and the system average.

23 Q Okay. All right. At page 10 of your revised
24 testimony, lines 10 through 12, you state, "Mr. Riley states
25 that he, 'Is not proposing that the Commission set rates by

1 looking at the percentage change in any rate category'."

2 Isn't it appropriate if you're going to look at
3 percentage changes to look at the trend in percentage
4 changes rather than the percentage increase in a particular
5 case?

6 A When I was discussing earlier that you look at the
7 timing of the rate increases, you can also look at the
8 magnitude. I think I've mentioned that earlier, too.

9 I think in my direct testimony there were some
10 situations where I was describing previous percentage
11 changes for a grouping of mail and the consideration of
12 impact.

13 MS. CATLER: Mr. Chairman, at this point I'd like
14 to provide the Commissioners, the witness and Mr. Tidwell
15 with copies of a portion of Library Reference J-90, which is
16 the first class mail rate history.

17 BY MS. CATLER:

18 Q If you would turn to page 1, which has the first
19 tab on it? I've circled two numbers there. This is the
20 first class rate history for non-presorted letters and
21 sealed parcels, first ounce, first class, single piece mail.

22 From February of 1991 through July of 2001, Mr.
23 Moeller, am I correct in calculating that the rates have
24 increased five cents for first class, first ounce, single
25 piece mail?

1 A That's correct.

2 Q Okay. I went and calculated that to be a 17.2
3 percent increase.

4 A I don't know.

5 Q Would you acknowledge that? You'll trust my
6 figures on that one?

7 A I'll trust your figure on that.

8 Q All right. Let's flip to the next page of the
9 rate history, also tabbed, which is entitled First Class
10 Mail Rate History for Three/Five Digit Presorted Letters,
11 Flats and Sealed Parcels, First Ounce.

12 I've again circled the rate for February 3, 1991,
13 which was 23.3 cents, and July 1, 2001, which was 25.5
14 cents. Mr. Moeller, will you acknowledge that that's an
15 increase of 2.2 cents?

16 A At this point I will agree that the 25.5 over the
17 23.3 is -- again I haven't done the calculation. I'll
18 accept your calculation of that figure.

19 Q Of it being a 2.2 cent increase? The subtraction?
20 You're going to trust my subtraction?

21 A Yes. I'm just anticipating --

22 Q The percentage one? Yes.

23 A No, no, no. I'm anticipating the fact that those
24 numbers aren't directly comparable, so I'm just saying the
25 math, 25.5 over 23.3, is that.

1 As Footnote 8 mentions, there were significant
2 changes that happened to mail prep right there in the middle
3 where you see the rate going from 25.8 to 23.8 with
4 implementation of classification reform where the
5 eligibility requirements changed significantly, so a lot of
6 the five digit mail was pushed up to three digit because it
7 had to have a higher minimum volume. You couldn't achieve
8 five digit presort.

9 Again, I'm not sure of the specific numbers. I
10 think you only needed ten pieces to get five digit rates.
11 Then on July 1 it changed to 150 pieces, so some mailings
12 got pushed up to three digit. That's why I'm hesitant to
13 say there was a whatever percentage you said increase for
14 that mail.

15 Q All right. Have you at some point looked at the
16 shift both from before the MC-95 case to after MC-95 and the
17 distribution of types of discounted mail?

18 A In standard, as a matter of fact, since that's
19 where my rate design background is here, an interesting
20 point. When we implemented classification reform, some
21 mailers who were shifted from five digit to three digit saw
22 rate increases as a result of classification reform.

23 That was a sticking point for some of them because
24 classification reform was supposed to recognize automation
25 more significantly in the rates, so in that case there was a

1 shift because we heard about it from the people who were
2 getting rate increases.

3 Q Well, that's a complaint. That's not necessarily
4 a shift.

5 I was talking about the enormous growth of five
6 digit pre-bar coded mail as the dominant category of
7 discounted mail after MC-95 where prior to that it was
8 certainly not the largest category.

9 A If the minimum requirements had remained the same,
10 that number would be even higher I would guess.

11 Q All right.

12 A I'm just saying that in isolation the change in
13 the minimum volume requirements caused mail to shift from
14 five digit to three digit.

15 Q But the shift in the rates also encouraged a lot
16 of folks to go and change their preparation so they could
17 take advantage of the five digit rates.

18 A That could be, too. I was just speaking to the --

19 Q That's the shift that I was asking about if you
20 were familiar with, the change in the distribution of the
21 types of or the proportion of the different types of
22 discounted mail since MC-95.

23 A I would assume that the volume history that's also
24 in the library reference would denote whatever mail mix
25 changes there were. Whether it's a shift or just a growth

1 in volume for a particular category, I don't know that.

2 Q Okay. Getting back to my percentage calculations,
3 for those people or for that mail that was five digit
4 pre-bar coded in 1991 versus mail that is five digit
5 presorted, pre-bar coded in 2001, the price has increased a
6 grand total of 2.2 cents during that period. Is that right?

7 A If they still achieved five digit presort, that is
8 the rate change. Their preparation changes changed as a
9 result of reclassification. That doesn't just mean minimum
10 volumes. There are other requirements that were added to
11 automation compatibility at that time, too.

12 In exchange for what would appear to be a small
13 percentage increase for that mail that does manage to stay
14 in the five digit tier and not get pushed up to three digit
15 where they would be paying there 26.9 cents under today's
16 rates, you should consider other things mailers have to do.

17 You can't make an apples to apples comparison
18 there necessarily either. Not just the minimum volumes, but
19 other requirements were layered on automation mailers at
20 that time.

21 Q But when it comes down to it, they're paying only
22 2.2 cents more than they were in 1991, as opposed to you and
23 I when we go and mail a letter. We're paying five cents
24 more, unless you send your mail to presort bureaus.

25 A No.

1 Q I don't send mine.

2 A I'm paying five cents more, but I'm not doing
3 anything differently than I did back when I was paying 29
4 cents. I'm still just putting a stamp on the letter,
5 addressing it and putting it in the mailbox.

6 Q Okay. I have calculated that the percentage
7 increase for the five digit pre-bar coded, presorted letters
8 from February 3, 1991, to July 1, 2001, is 9.4 percent.

9 A Which category again?

10 Q That's the 23.3 cents to the 25.5 cents.

11 A Okay. So we're back where we started where you're
12 doing the 25.5 divided by 23.3, and you're getting 9.4. I
13 would agree. Subject to check, I would trust your math on
14 that.

15 Q Even if they went, and I haven't done the
16 calculation, and I'm not so good at these things quickly.
17 Even if they shifted to three digit, which I don't believe
18 if you look at the volume shifts is what anybody has been
19 doing.

20 I still think that the percentage change is going
21 to be less than 17.2 percent, which has been the percentage
22 change for single piece, first class mail during the same
23 period, so what is so terrible about them paying a bigger
24 percentage increase this year?

25 A They are paying a bigger percentage increase under

1 our proposed rates, and there's nothing wrong with it. It's
2 the outcome of the consideration of the rate making criteria
3 that were employed by the design witness.

4 Q Isn't the impact on mailers more appropriate than
5 the percentage change in rates, something like, you know,
6 what would cause mailers to go out of business?

7 A I think the percentage change is a handy tool to
8 sort of take into consideration a lot of things that might
9 happen if a large increase is layered onto a business.

10 Q At page 12 of your revised testimony, lines 3
11 through 6, you state:

12 "The larger resulting discounts for some
13 categories in first class mail can be justified in light of
14 further consideration of Section 3622(b)(4) in that the
15 adjustments in the settlement agreement help temper the rate
16 increases for these categories."

17 Why do you believe it is necessary or appropriate
18 to temper the rate increases for those mailers who pre-bar
19 code and presort to the three or five digit level?

20 A In this section I'm simply trying to add to the
21 record an analysis of the resulting rates from the
22 settlement agreement, and I think the settlement agreement
23 is very reasonable. You can find things that attest to that
24 reasonableness.

25 Again, we're asking a very large group of mailers

1 to give us more money earlier than they otherwise would
2 have. That might mean you can look at (b)(4), an impact on
3 the mailer, like I talked about earlier with the chronology
4 of the rate increases. This changes that, and maybe a
5 slight deference to (b)(4) is reasonable.

6 Q Now, when you're talking about tempering the rate
7 increases, the rate increases were already going to be lower
8 for these folks. They were facing a 2.5 cent increase
9 versus the single piece increase of three cents, and now
10 you're supporting only a 2.3 cent increase. Is that right?

11 A On a per piece basis, it's a two-tenths of a cent
12 change. On a percentage basis, the percentage increase is
13 still larger than the single piece increase.

14 Q You go on on page 12 at line 6 to say that, "Such
15 an accommodation is not unreasonable, especially when the
16 Commission considers the expected advancement of the Docket
17 No. R-2001 implementation date as part of the settlement
18 agreement."

19 What does the advance of the implementation date
20 have to do with favoring this particular group? Everybody
21 else, including single piece mailers, are going to pay in
22 advance, too.

23 A Right. There was a concerted effort and a good
24 faith effort by most of the parties to this case to come to
25 an agreement on various modifications to the original

1 proposal of the Postal Service.

2 This particular change which we're addressing
3 here, which is the first class two-tenths of a cent change
4 for two of the rate categories, was apparently viewed by
5 almost all of the parties to the case to be a reasonable
6 outcome to that good faith effort of trying to avoid an
7 extremely long litigation of enumerable issues.

8 I think the fact that it was signed on by so many
9 parties shows that that's a reasonable agreement.

10 Q At Footnote 4 on page 12 you describe the \$80
11 million the proposed settlement and agreement rates will
12 cost the Postal Service as a "relatively small reduction in
13 expected revenue."

14 Last year, the Postal Service's deficit was \$1.68
15 billion. \$80 million is 4.8 percent of \$1.68 billion. Do
16 you consider reducing the Postal Service's deficit five
17 percent to be a relatively small achievement?

18 A \$80 million is relatively small, as I say here, a
19 relatively small amount because when you compare it to the
20 total revenue from this chunk of mail it's not a big number.

21 Now, if we could get that 80 million and implement
22 on June 30th and have that be part of the settlement, you
23 know, the Postal Service, of course, would have liked to
24 have had more money, but when the parties all agreed to the
25 stipulation and agreement once signed there was this

1 recognition that there is going to be a lot more money
2 coming in earlier, and the 80 million in that context means
3 relatively small too.

4 Q Isn't this \$80 million money that will have to be
5 taken out of this rate category at a later date because it's
6 not justified by cost avoidance of these mailers?

7 A When there is a subsequent case filed, there will
8 be costs associated with that. And once again, the rate
9 design witness will be faced with a number of pieces of
10 information, existing rate-making policies, and will propose
11 rates.

12 I can't speak to other -- you know, what those
13 rates are going to be.

14 Q But mathematically when the 80 million, if and
15 when the 80 million is taken out, it will result in larger
16 percentage changes for the three- and five-digit mailers
17 than it would otherwise have been the case if the 80 million
18 hadn't been in there.

19 A I don't know what effect it's going to have on
20 those particular rate categories. But even the billion
21 dollars earlier will help future rate increases.

22 Q Okay.

23 A Help keep them lower than they otherwise would be.

24 Q The APWU has proposed rates that are between 80
25 percent and 100 percent of the amount the Postal Service

1 calculated working sharing would save the Postal Service.

2 Have you or to your knowledge has anyone at the
3 Postal Service calculated what effect implementing the rates
4 proposed by the APWU would have on postal revenue?

5 A I don't know of a calculation of that figure.

6 Q You haven't done it?

7 A No.

8 Q And you don't know that anyone else has?

9 A I don't know. If we were going to have a
10 percentage increase larger, there would be effects on volume
11 and things that would be costs that would impact that
12 number, and I haven't made that calculation.

13 Q Okay. At page 12 in your testimony, lines -- it's
14 eight through 10, you seem to be saying that the "recency"
15 of the two document number R2000-1 rate increases
16 experienced by work-shared First Class mail in calendar year
17 2001 justified something in this case.

18 In R2000-1, the test year was fiscal year 2001;
19 isn't that right?

20 A R2000-1?

21 Q Yes, R2000-1.

22 A I'm not real sure what that -- I can't remember.
23 All these cases run together. Now, I'm not sure what the
24 test year was. 2001 sounds right.

25 Q Well, in the test year for R2000-1 wasn't the

1 Postal Service supposed to break even or come real close to
2 breaking even in that year?

3 A In the test year of any rate case the idea is to
4 propose rates that will meet the revenue requirement and
5 therefore be close to the break even requirement in that
6 particular case.

7 Q Okay. And you expect that was true in R2000-1?

8 A That's the goal of the rate level witness in his
9 or her testimony to propose rates that generate revenue that
10 meet the revenue requirement.

11 Q So this is what your predecessor did in the R2000-
12 1?

13 A Yes.

14 Q And what you did for this case?

15 A Yes.

16 Q Okay. But you don't know what your predecessor
17 was shooting for in R2000-1, whether it would actually break
18 even or just about?

19 A Regardless of who is doing the testimony, the goal
20 was to meet --

21 Q Okay.

22 A -- the break even requirement.

23 Q And didn't the Postal Service instead have a \$1.68
24 billion loss in fiscal year 2001?

25 A I'm not sure of the precise number, but the test

1 year is a test year in the future, and the situation you
2 have noted that there was a loss in that year.

3 Q A big loss.

4 A In the fiscal year.

5 Q A big loss on the order of \$1.7 billion?

6 A There was a loss, yes, big loss. However you want
7 to quantify it, it was a loss, yes.

8 Q Do you think the governors of the Postal Service
9 were too harsh on work-share mailers when they increased
10 their rates two-tenths of a cent in July of 2001?

11 A Well, you are talking about the modification that
12 happened in July, and it's certainly beyond the scope of my
13 testimony, but back then the issue was that revenue
14 requirement, and I wasn't involved in the decision-making,
15 but I know that there was a discrepancy between what we
16 thought the revenue requirement was and the governors acted
17 to modify the rates, and to meet what we thought the revenue
18 requirement was. We chose some rate categories where we
19 could adjust those rates to get the revenue, the incremental
20 revenue.

21 Q Did that two-tenths of a cent that was added by
22 the governors in July 2001 enter into your opinion that the
23 proposed stipulation and agreement rates were appropriate?

24 A Well, by the way "recency" is a word, you know.
25 When I talked earlier about the chronology, I mentioned July

1 2001 as a date when the rates were increased for that
2 grouping of mail.

3 So yes, when I am looking at the settlement rates
4 and saying that they are reasonable and consistent with the
5 rate-making criteria, I note the timing of the previous rate
6 increases.

7 Q Okay, where is this now? Okay.

8 At page 13 of your revised testimony, lines two
9 through four, you state, "Under the Postal Services's
10 original Docket No. R2001-1 request, the test year after
11 rates," is that what TYAR stands for?

12 A Yes.

13 Q Okay. "...contribution per piece for single piece
14 First Class Mail is 20.18 cents where work-shared First
15 Class Mail is 20.56 cents."

16 Do these figures compare identical pieces of mail
17 one that goes single piece, the other part of a work-shared
18 mailing?

19 A Well, if one is going single piece is one going
20 part of a work-share mailing, they are not identical pieces
21 of mail.

22 Q Well, a letter that looked exactly the same, that
23 had the same characteristics with the same size, had the
24 same typing on the front, had the same -- I guess it would
25 have to have a -- what do you call those? Not a stamp, the

1 other thing. Meters, metered mail -- at the same weight,
2 the same shape, all those things, letters that look the
3 same, feel the same, weigh the same.

4 A Right.

5 Q Not a, you know, valentine on red with
6 handwriting, but two pieces of business mail that are
7 identical, one gets dropped into the single piece
8 mailstream, the other gets put into a work-shared mailing.
9 Is that what these two figures are comparing?

10 A I should have just explained what those figures
11 are. They are the mail and work share in the CRA, and the
12 mail and single piece. Whatever makes up that grouping of
13 mail, work sharing, whatever makes up the grouping of single
14 piece is reflected in these figures here.

15 Q Okay. So these figures are average contributions
16 per piece of mail in the single piece mailstream versus the
17 average contribution of a piece of mail in the work-shared
18 First Class Mailstream; is that right?

19 A It's the contribution per piece, which implies an
20 average I guess, of those two groupings of mail.

21 Q All right, now, so this also includes not only
22 letters but flats and sealed parcels; is that right?

23 A It's everything that's in that category of single
24 piece and everything in the category of work shared.

25 Q Okay. And so that the distribution of types of

1 weights of mail, of size of mail, whether there are in fact
2 flats and sealed parcels in the stream of either First Class
3 single piece or work-shared mail, and their proportion in
4 there would affect this average calculation; isn't that
5 right?

6 A It reflects the characteristics of the mail that
7 are in there.

8 Q Okay. When Mr. Riley was talking about identical
9 pieces of mail, such as an identical one-ounce machinable
10 letter, one that goes single piece and the other that goes
11 as part of a work-shared mailing, both contributing the same
12 amount to institutional costs as the Postal Service, your
13 figures do not measure that, do they?

14 A No. These figures I cite here are intended to
15 show that if one were concerned about contribution per piece
16 of various groupings in First Class Mail, the data that are
17 available involve these two categories, and it was merely
18 pointing out that if you look at the data that is
19 available -- are available -- you would see that the
20 contribution per piece have the relationship that I talk
21 about here.

22 Q Right. But that's totally irrelevant to what Mr.
23 Riley was saying, which would be comparing identical letters
24 and one that goes one way and one that goes through the
25 other mailstream, and say that the cost of those two pieces

1 or the contribution of those two pieces should be identical.

2

3 A I know that Mr. Riley mentioned the comparable,
4 for instance, on line 12 of his testimony, and line -- I
5 mean page 12, line seven. But there were times when it
6 seemed to evolve more into this contribution per piece
7 within a subclass and that the goal should be to have pieces
8 within the subclass have equivalent contributions per piece.

9

10 Q I don't know where in Mr. Riley's testimony it
11 says that. I wasn't --

12 A Well,

13 Q -- that what he was trying to say was that
14 identical pieces should contribute identical amounts.

15 A Well, his testimony speaks for itself, I suppose,
16 but there was the phrase that says, "So that the
17 contribution of any piece --

18 Q Wait.

19 A I'm sorry. "So that the contribution of any piece
20 will be the same regardless of in which rate category in the
21 subclass that piece enters the mailstream."

22 Q But doesn't that imply that if you take a single
23 piece and you put it in either one mailstream or the other
24 mailstream, not an average but a single piece --

25 A There are a variety of pieces in First Class Mail.

1 Q Right. So if you put a letter in, whether you put
2 it in the single piece stream or the work-shared stream, the
3 contribution should be the same, or heaven forbid, you put a
4 sealed parcel into the single piece stream, or the work-
5 shared stream, that the contribution for that single parcel
6 should be the same.

7 A I think I lost your question there in that.

8 Q The figures that you're providing are for the
9 overall average contribution and they don't provide any
10 information about what is the contribution of identical
11 pieces that are placed in one mail stream or the other.

12 A It's not an identical piece comparison, but there
13 is something about that mail in the work-shared category
14 that is causing the cost to be very low and its contribution
15 to be very high, especially in percentage terms. But on a
16 per piece basis that we are talking about here there is
17 something about that mail that is making it much less
18 costly.

19 Q Yes, but that goes -- once you are talking about
20 an average doesn't that then go and pick up all the
21 differences not between the identical pieces of mail, but
22 the fact that single piece mailstream includes the heavier
23 pieces, the non-machineable pieces, and that those -- what
24 is supposed to be the comparable pieces for the work-shared
25 mail are blended in with all of the, you know, the

1 valentines and the eight-ounce packages and things of that
2 sort?

3 A Yeah, I'm not -- I'm not contending that these are
4 -- well, going back. I have already said yes, they are a
5 mix of whatever mail is in there. Single piece, for
6 instance, if you want to start using an example, are heavier
7 in general than work-shared mail, so they pay the additional
8 more frequently.

9 Q Right.

10 A That tends to -- if you were to correct for that,
11 that particular thing, and again there is many things, if
12 you correct for that, that would drive the contribution per
13 piece even further apart with work share going higher
14 relative to single piece.

15 Q All right, but work share is supposed to be
16 compared against a benchmark rate, right?

17 A Again, I'm not citing this contribution per piece
18 as a goal of rate design. I mean, I explicitly say that in
19 the beginning of that paragraph. So if you are shifting
20 gears and talking about how the discounts are set, then
21 certainly there is a procedure there where you identify a
22 benchmark and you identify the cost of that mail if it takes
23 advantage of the working sharing, and you see the cost
24 difference. That's not what I am trying to do here.

25 Q And this includes everything in single piece, not

1 just the benchmark against which the work-shared mail is
2 compared; is that right, these figures that you have got
3 here, page 12, lines two through four?

4 A In that paragraph I go -- excuse me. In that
5 paragraph I go on to say the Postal Service by no means
6 believes that rate design should be driven by a desire to
7 equalize unit contributions as measured by CRA type cost
8 differences. At the same time, as indicated by Witness
9 Robinson, these data can provide me more information.

10 Q And why is this information meaningful?

11 A I think it shows that there is something about the
12 work-shared mail that has its costs -- and again, Witness
13 Robinson explains that. I don't -- she studied this issue
14 and reached her conclusions about the rate design.

15 All I am saying here is that we are presented with
16 information and you should look at it, and if it enlightens
17 you in any way, then use it.

18 Q All right. But if the information combines apples
19 and oranges on one side and only looks at oranges on the
20 other side, I am questioning your use of the word
21 "meaningful." To me, that's not a meaningful comparison.

22 A That's why you wouldn't use it for the rate design
23 itself. It's an indicator that it -- it's what it's worth.
24 It's on paper and it's the one measure we have of
25 contribution per piece within First Class Mail for different

1 categories, different groupings.

2 Q If you had the data, which you clearly don't, to
3 go and calculate the contribution per piece the way Witness
4 Riley was talking about it, identical pieces, one going in
5 the single piece stream, the other going in the work-shared
6 stream, would that be something that might be relevant for
7 rate-making?

8 A I think that's just another -- that would be a
9 fallout of the decisions that are made in the rate design.
10 If you had that data, it would be reflective of whatever
11 decision is made in the rate design regarding the discounts
12 and the benchmark and the past.

13 Q But there is no data in the Postal Service's --
14 certainly in the filing, nor does the Postal Service collect
15 data on that basis, do they?

16 A We don't have CRA type bottom up costing for rate
17 categories below the levels that are presented in the CRA.

18 Q Okay. Okay.

19 CHAIRMAN OMAS: Ms. Catler, could you give us an
20 estimate of how much longer you will be with this witness?

21 MS. CATLER: I was just checking to see if I had
22 anything beyond this question because I don't seem to have
23 anything written down, and I just wanted to make sure I
24 hadn't forgotten something.

25 CHAIRMAN OMAS: All right, if you are about ready.

1 MS. CATLER: I have nothing further for this
2 witness at this time.

3 CHAIRMAN OMAS: Well, thank you. I didn't mean to
4 rush you.

5 MS. CATLER: No. No. That was it. Thank you.

6 CHAIRMAN OMAS: All right. Is there anyone else
7 who would like to cross-examine this witness?

8 (No response.)

9 CHAIRMAN OMAS: Are there any questions from the
10 bench?

11 Oh, wait, excuse me. Mr. Hart, I'm sorry.

12 MR. HART: Good morning, Mr. Moeller. One
13 question if I may. Henry Hart representing the National
14 Association of Presort Mailers.

15 CHAIRMAN OMAS: Thank you.

16 CROSS-EXAMINATION

17 BY MR. HART:

18 Q I believe counsel for APWU asked you whether or
19 not the Postal Service had done any studies to indicate the
20 revenue and volume effects of the APWU proposal on the
21 Postal Service revenue and volume; is that correct?

22 A (Nods affirmatively.)

23 Q And I believe you answered that you weren't aware
24 of any such studies?

25 A That is correct.

1 Q Are you aware of whether or not in support of its
2 testimony APWU conducted or presented any such studies?

3 A I'm not aware of any.

4 MR. HART: That's all. Thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Hart.

6 Any other cross-examine?

7 (No response.)

8 CHAIRMAN OMAS: Are there any questions from the
9 bench?

10 COMMISSIONER GOLDWAY: No.

11 CHAIRMAN OMAS: Mr. Tidwell, would you like some
12 time with your witness?

13 MR. TIDWELL: I was assuming we would use the mid
14 to late morning break to --

15 CHAIRMAN OMAS: That's my thought exactly, so we
16 will take about -- do you need five minutes? Five to 10 --
17 let's go 10 minutes.

18 (Whereupon, a recess was taken.)

19 CHAIRMAN OMAS: Mr. Tidwell.

20 MR. TIDWELL: Mr. Chairman, the Postal Service has
21 no redirect.

22 CHAIRMAN OMAS: Thank you. Mr. Moeller, that
23 completes your testimony here today. We appreciate your
24 appearance and your contribution to our record. Thank you,
25 and you are excused.

1 THE WITNESS: Thank you.

2 (Witness excused.)

3 CHAIRMAN OMAS: Mr. Hart. The National
4 Association of Presort Mailers, would you introduce your
5 witness, please?

6 MR. HART: Thank you. Good morning. Henry Hart
7 representing the National Association of Presort Mailers.
8 Mr. Gillotte.

9 CHAIRMAN OMAS: Mr. Gillotte, would you stand,
10 please?

11 Whereupon,

12 JAY GILLOTTE

13 having been duly sworn, was called as a witness
14 and was examined and testified as follows:

15 CHAIRMAN OMAS: Please be seated.

16 Okay, Mr. Hart.

17 MR. HART: Thank you.

18 DIRECT EXAMINATION

19 BY MR. HART:

20 Q Mr. Gillotte, you have in front of you testimony
21 dated February 20 entitled "Surrebuttal Testimony of Jay
22 Gillotte on behalf of National Association of Presort
23 Mailers, NAPM-SRT-1.

24 Do you have that in front of you?

25 A Yes, I do.

1 Q Was that testimony prepared by you or under your
2 supervision?

3 A Yes, it was.

4 Q If you were to provide that testimony orally
5 today, would it be the same?

6 A Yes, it would.

7 MR. HART: Mr. Chairman, with your permission I
8 would move into evidence the Surrebuttal Testimony of Jay
9 Gillotte on Behalf of National Association of Presort
10 Mailers. I have two copies for the court reporter.

11 CHAIRMAN OMAS: As I noted earlier, there is a
12 pending motion to strike portions of this testimony filed by
13 APWU.

14 Are there any other objections?

15 (No response.)

16 CHAIRMAN OMAS: I will direct counsel to provide
17 the reporter with two copies of the corrected direct
18 testimony of Jay Gillotte. That testimony is received into
19 evidence and will be transcribed into the record at this
20 point.

21 (The document referred to,
22 previously identified as
23 Exhibit No. NAPM-SRT-1, was
24 received in evidence.)

25 //

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

Docket No. R2001-1

POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2001

SURREBUTTAL TESTIMONY OF
JAY GILLOTTE
ON BEHALF OF
NATIONAL ASSOCIATION OF PRESORT MAILERS

February 20, 2002

1 1. Statement of Experience and Qualifications.

2 I am Jay Gillotte, and I am the First Vice President of the National Association of Presort
3 Mailers ("NAPM"). I have served as a Director of the Association since 1997. My experience in
4 mail processing dates back to 1981 when I went to work for Technisort, Incorporated. In 1982 I
5 founded Presort Services, the oldest and the first fully automated presort mailing company in
6 Michigan which now operates in both Lansing and Grand Rapids, Michigan with a combined
7 daily volume of approximately 500,000 pieces. I have been a member of the MERLIN
8 Technical Advisory Committee since its creation. I am a member of both the Lansing and Grand
9 Rapids Postal Customer Councils (PCCs) I currently serve as the Industry Vice Co-chair of the
10 Lansing PCC and have in the past served as the Industry Co-chair of both the Lansing and
11 Grand Rapids PCCs.. I am also a member of the Mail and Fulfillment Services Association and
12 a member of its Postal Affairs Committee.
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16 2. Purpose.

17 The purpose of this testimony is to support the settlement proposal either agreed upon, or
18 in the case of a few at least not opposed, by every party except the APWU, and to respond, from
19 the perspective of a presort bureau, to several issues raised by APWU witness, Michael J Riley,
20 in the testimony he has submitted in this case.
21

22 First, I will discuss the failure of the cost avoidance measures used by Mr. Riley to reflect
23 substantial cost savings provided by presort mailers. These avoided costs include: capital costs
24 of handling extraordinary volumes of workshare mail if it were to revert to the USPS; providing
25 the supplies needed to process 45 billion pieces of FCLM; mailer education; deliveries of mail
26 transportation equipment ("MTE") to mailers who pick up or receive MTE from presort mailing
27 companies rather than the USPS; costs for the USPS truck fleet needed to pick-up and deliver
28

1 mail currently delivered by presort mailing companies to the USPS at P&DCs or, at least, major
2 postal facilities other than local associate post offices; and UAA costs avoided as a result of the
3 Move Update requirements applicable to worksharing FCLM.

4 Second, I will discuss the MERLIN issue raised by Mr. Riley.

5 Third, I will discuss the overall value of the worksharing program to the USPS.

6
7 3. Unrecognized Cost Savings of Worksharing FCLM.

8 Because of the methodology employed by the USPS and Mr. Riley in this case to
9 measure the costs avoided by worksharing, I believe it important to remind the Commission that
10 presort bureaus and other worksharing mailers perform many functions which significantly
11 reduce costs incurred by the USPS that are not included by the USPS's estimate (relied upon by
12 Mr. Riley) of the avoided costs.

13 (a) Capital Costs and Reversion. Since the advent of automation, the presort industry has
14 made a very substantial investment in capital equipment, systems and workspace needed to
15 process workshared mail. This investment has permitted the USPS to correspondingly reduce its
16 investment in the equipment, systems, and workspace, it would otherwise have to have to
17 process the 45 billion pieces of workshared FCLM now processed each year by worksharing
18 mailers.

19
20 Based on my knowledge of the presort industry, I estimate that private-sector, work
21 sharing mailers currently own or lease approximately 5 million square feet of workspace used to
22 process automation mail. This is space the USPS does not currently have, but would have to
23 have to process the 45 billion pieces of workshared mail presented to it annually. If one assumes
24 that the annual rental value of this space is at least \$10 per sq. foot, this is a capital cost of more
25 than \$50 million per year not borne by USPS.
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1 We can also determine from the USPS lists of CASS/MASS Certified MLOCs that
2 there are approximately 1000 MASS certified MLOCs in the private sector. If we assume that
3 the average MLOC costs \$250,000, this represents an avoided capital expense of \$250 million.

4 It seems highly likely that worksharing FCLM mailers have procured their plant space in
5 a less costly manner than could have the USPS. Furthermore, the sheer size of the amount of
6 physical plant and equipment devoted by mailers to the USPS worksharing program makes it
7 appropriate for the Commission to consider the positive value of this contribution in determining
8 whether to adopt a conservative or more expansive measure of cost avoidance of worksharing
9 FCLM. In particular, as it has in the past, the Commission should consider the total inability of
10 the USPS to handle worksharing FCLM if it were to revert from worksharing mailers to the
11 USPS, as a reason to adopt a less conservative and more expansive measurement of worksharing
12 FCLM cost avoidance, and to therefore establish larger incentives for worksharing FCLM.

13
14 (b) Avoided maintenance costs. In addition to the avoided capital costs, the USPS is also
15 avoiding substantial costs related to the operation and maintenance of the equipment needed to
16 process automated workshared mail.

17
18 (c) Avoided supply costs. USPS is also avoiding the substantial annual cost of the
19 supplies needed to process workshared mail. For example, presorted mail must be presented in
20 trays that are sleeved, strapped, and labeled. Thus, in addition to the equipment necessary to
21 sleeve, strap, tray and prepare labels for the approximately 8.5 million trays of mail in which the
22 45 billion pieces of FCLM are delivered to the USPS each year, the USPS is avoiding the cost of
23 the strapping and tray labels, yet these savings are not included in the USPS's computation of
24 the FCLM workshare costs avoided relied upon by Mr. Riley. If one doubts the cost of such
25 equipment and supplies one has only to walk through the exhibit hall at a National Postal Forum
26 to see booths of literally dozens of manufacturers of this equipment and vendors of these
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1 supplies. These cost savings should be estimated and included in the discounts for presorted
2 mail.

3 (d) Automation Compatible Mail Costs. The USPS has effectively transferred to the
4 presort industry front-line responsibility for ensuring that 45 billion pieces of mail (nearly a
5 quarter of all mail processed by the USPS) are automation compatible. In fact, the very concept
6 of "automation compatible mail" and the related concepts of "upgradeable" and "non-
7 upgradeable" mail reflect the fact that not all mail processed by presort bureaus is in fact BMM.
8 Without the incentives provided for workshared mail, there would be no reason for mailers to
9 submit mail in a form that would permit it to be automated. The fact that a few large mailers did
10 some presorting prior to the time worksharing discounts were available (and at a time when
11 there were no workshare requirements which could result in rejection of non-qualifying mail),
12 does not mean that those mailers, much less other mailers, would do the work required today
13 without an appropriate incentive. Using the willingness of some large mailers to assist the USPS
14 to find a way to reduce postage costs for half of the Postal Service's most important mail stream
15 against those mailers, as Mr. Riley would have this Commission do, is truly outrageous. It
16 amounts to telling them that they have done so much for the USPS and other mailers for so long
17 that they should now be required to continue doing it forever for nothing.

18
19
20 What the Commission needs to understand is that the avoided costs measured by the
21 USPS as reflected in the testimony of Michael Miller, which Mr. Riely relies upon, reflect no
22 measured cost saving from providing mail that is in fact automatable. Instead the USPS asks this
23 Commission to indulge in the fantasy that all or the vast majority of the mail processed by
24 worksharing mailers of FCLM would arrive at the USPS fully automatable without any
25 incentive. The amount of time and effort presort bureaus expend working with customers to
26 ensure that the mail they receive is automation compatible belies this convenient but
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1 undocumented and unproven assumption. For example, full rate First Class mail does not have
2 to protect the barcode clear zone. Without the barcode clear zone, the USPS would have
3 difficulty barcoding such mail received by it on MLOCs. Full rate mail does not need to be
4 faced. It can be and is regularly inserted in trays and other packaging in various orientations.
5 Nor does anyone have to check to see if the proper postage has been applied and the proper date
6 included in metered mail.
7

8 This transfer of primary responsibility for the production of automation compatible mail
9 to the presort industry should have reduced the number of USPS Customer Service
10 Representatives and Mail Design Analysts, needed by the USPS. While I don't know how many
11 USPS Customer Service Representatives and Mail Design Analysts have been or could have
12 been eliminated, I do know that the sales representatives of presort mailers as well as mail
13 processing personnel expend a considerable amount of time and effort working with customers
14 to avoid or resolve problems with their mail. Put another way, BMM does not have to have a
15 number of requirements imposed on mail that qualifies for the worksharing automation
16 discounts, but neither the cost of meeting these requirements nor the cost of adequately educating
17 mailers about these requirements is reflected in the calculation of the costs avoided by the
18 USPS. Windowed mail provides yet another example. BMM mail does not have to pass a tap
19 test conducted to ensure that address blocks in window envelopes remain within the window and
20 readable. Nor does it matter if BMM sticks together as result of too much water being applied
21 when the letter was sealed and the glue ran. Without automation workshare mailers to explain
22 the requirements and ensure they are complied with, USPS would have to have its own
23 Customer Service Representatives and Mail Design Analysts out begging mailers to provide,
24 out of the goodness of their hearts, mail pieces the USPS must automate. It would also have to
25 have people to check the mail for flaws of the sort noted above.
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1 (e) Distribution of Mail Transportation Equipment ("MTE"). In the case of Mail
2 Transportation Equipment, USPS witness Miller has suggested in his Direct Testimony that his
3 cost avoidance measurement may have been understated to the extent that BMM mail is in fact
4 presented to the USPS in trays. This begs the question, " Why would BMM be presented to the
5 Postal Service by mailers (as opposed to by other Postal Service locations) in trays? Mailers
6 paying the full single piece first class rates are not required to enter mail in trays. Fullpaid
7 FCLM can be entered in any form. However, this unproven assumption presents another
8 unrecognized saving realized by the USPS as a result of workshared mail. If BMM mail were
9 entered in trays, how would BMM mailers have gotten the trays? The answer is simple, the
10 USPS would have to give them the trays. But how would it do that? To make a fair comparison
11 between workshared FCLM and BMM, the Postal Service would have to include the cost of
12 providng trays as well as other MTE such as APCs to BMM mailers.

13
14 Many presort bureaus receive mail from their customers in trays, of course, but those
15 trays came to the mailer through presort bureaus. If it were not for presort bureaus, the Postal
16 Service would either have to deliver the trays to BMM mailers or it would have to ask them to
17 pick-up trays from the Post Office assuming they would take their mail to the Post Office rather
18 than simply leave it on the dock or at a mail room in their office building or crammed in a letter
19 box. Picking-up empty trays at a Post Office while dropping off BMM sounds easier than it
20 would be in practice, of course.

21
22 (f) Reduction in Peak Work Time Activities. Based on my knowledge of the industry, I
23 estimate that the average presort bureau has about 100 customers. That means that the windows
24 or the back docks of most post offices would be a lot busier than they are now toward the end of
25 the normal work day (when most mail is delivered to Post Offices) by business mailers, if the
26 20,000 mailers who use presort bureaus were trying to get to the window or the loading dock at
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1 the end of the business day to not only deliver mail, but to pick-up MTE. The point is, the USPS
2 would find it difficult at best to distribute empty trays during the peak hours for mail delivery to
3 Post Offices. The frustration might well result in BMM mailers delivering mail in miscellaneous
4 paste-board boxes or even grocery bags.

5 Since BMM mail receives no discount, there is no reason for BMM mailers not to deliver
6 all of their mail to the USPS at the close of the regular business day, when the USPS is already
7 busy trying to collect and process the collection-box letter mail on which its performance is
8 measured and on which management bonuses depend, at least in part. Presort mailers generally
9 want to deliver their mail as late in the day or evening as possible thus avoiding the hours of
10 peak mail pick-up and processing by the USPS. Moreover, the mail the presorters enter into the
11 mail stream is deposited at P&DCs or major postal facilities, not at Associate Offices and even
12 letter boxes. .
13

14 Since all but a very small portion of the mail presented by presort bureaus is sorted to at
15 least the AADC level, as well as sleeved, banded and labeled, all the entry facility normally
16 needs to do with the portion of the automated FCLM it receives that is not addressed for delivery
17 within its own service area is cross dock this mail onto transportation to the next appropriate
18 facility. Local mail, mail that will be delivered in the service area of the entry P&DC, is simply
19 held for a secondary incoming or delivery sequence sortation which will not occur until the early
20 hours of the next day at the earliest.
21

22 In short, if the USPS had tried to distribue MTE for BMM it would add an additional
23 work load to an already very busy time period. The enlarged peak load would require the USPS
24 to build and staff much larger facilities which could accommodate the delivery of large volumes
25 of BMM in the late afternoon and early evening along with the pick up of large amounts of
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1 MTE. Yet the avoidance of these costs is not recognized in the discounts sought by the USPS
2 for workshared mail in this case.

3 (g) Reduced Truck Fleet. The foregoing discussion points out another savings
4 provided by workshared mail that is not reflected in the avoided cost calculations of USPS
5 witness Miller upon which Mr. Riley relies, the savings represented by the pick up and delivery
6 or, at the least, consolidation of the pick-up and delivery of vast quantities of mail. At present,
7 most presort bureaus pick up mail from their customers. Much, if not most, of this mail is mail
8 the Postal Service would have to pick-up if it were not picked-up by presort bureaus. Many
9 presort bureaus also deliver some or all of the mail they process to the USPS. These mail pick-
10 ups and deliveries should have allowed the Postal Service to actually reduce the number of
11 trucks in its fleet and reduce and shorten pick-up runs they would otherwise have to make to the
12 presort mailer customers. We know, on an anecdotal level, from conversations with local postal
13 officials that this is true, but the USPS has never performed the studies necessary to quantify
14 these substantial savings.
15

16
17 (h) Savings from Reduced UAA Mail. The rates requested by the USPS in this case fail
18 to include substantial reductions in the avoided cost of forwarding undeliverable-as-addressed
19 ("UAA") mail, due to compliance by worksharing FCLM with Move Update requirements.
20 Mailers have incurred and are incurring substantial expenses in order to comply with the Move
21 Update requirements, made applicable to worksharing FCLM in July 1997. It is frustrating to
22 see the USPS continue to avoid making any effort to quantify the obvious benefit the USPS
23 derives from these Move Updated requirements, while at the same time reaping the mail
24 forwarding cost savings from these requirements.
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1 In my company, in order to comply with move update requirements, we have
2 implemented FASTforward® on all of our MLOCs. Use of FASTforward should avoid most
3 all mail forwarding costs to the USPS for that worksharing FCLM processed with FASTforward.

4 Based upon my conversations with other presort bureaus and equipment manufacturers, it
5 is my conservative estimate that at least 50 % of worksharing FCLM mail is processed
6 FASTforward and will, therefore, avoid most all forwarding costs. In addition to the
7 worksharing FCLM mail which is processed with FASTforward and therefore free of most all
8 forwarding costs, all other worksharing FCLM is processed using one of the other three
9 approved methods for meeting the Move Update requirements. The point is, workshared FCLM
10 must comply with Move Update and, by their doing so should reduce USPS mail forwarding
11 costs substantially, but the discounts requested do not reflect any such savings.

12 4. MERLIN

13 In his testimony, Mr. Riley suggests that MERLIN has demonstrated that a lot of
14 worksharing mail is not entitled to the discounts provided for workshared mail and argues that
15 because of this discounts should be reduced. This argument is misguided for a number of
16 reasons. I will address only a few of them.

17 First, as I noted, I have been a member of the MERLIN Technical Advisory Group since
18 its creation. The minutes of the August 2, 2001 MERLIN TAG do not support the conclusion
19 urged by Mr. Riley. Following that August 2, 2001 meeting the USPS recognized that MERLIN
20 had been programmed to "fail" mail that can be and is processed everyday on the Postal Service's
21 automation equipment and has reprogrammed MERLIN several times since then. Presort
22 mailers continue to have a number of problems with MERLIN. Those problems have now been
23 referred to a MTAC Working Group for further exploration and, we hope, further remediation.
24 What Mr. Riley failed to include in his testimony is that according to Tom Day, USPS Vice
25

1 President for Engineering, the USPS 's automation equipment currently reads and processes more
2 than 98% of the barcodes applied by worksharing mailers.

3 Second, the Commission needs to understand that the discounts are based upon
4 worksharing mailers doing what the USPS would otherwise have to do itself. Mr. Riley would
5 have this Commission believe that USPS applied barcodes are perfect while those applied by
6 worksharing mailers are deficient. The truth is quite the opposite. The good barcodes are the
7 ones supplied by worksharing mailers. Since some of the equipment I use to barcode FCLM mail
8 is the same as the equipment used by the USPS to barcode FCLM I know that my equipment can
9 produce barcodes as good as those applied by the USPS. I also know that all of my equipment
10 that prints barcodes prints barcodes of essentially the same quality. Finally, I am aware that
11 because of superior maintenance and greater employee accountability which are necessary to
12 avoid postage adjustments, that the barcodes my company and other presort bureaus apply are, in
13 fact, superior to the barcodes applied by the USPS. At an MTAC meeting last summer Mr. Day
14 was asked why the USPS is not testing, and does not propose to test, its mail on MERLIN. (It
15 has never tested its own barcodes on ABE--the Automated Barcode Evaluator). He responded
16 by noting the USPS doesn't need to test its barcodes because it immediately processes the mail it
17 barcodes on its automation equipment and therefore knows if the barcodes are bad. While Mr.
18 Day is not entirely correct about when and how quickly the USPS re-runs USPS bar-coded mail,
19 this argument totally undercuts Mr. Riley's position. In order to sort their mail, presort bureaus
20 have their MLOCR's immediately read the barcode applied to each piece. Moreover, most
21 presort bureaus second pass most of their mail. If their automated mail-processing equipment
22 could not read the barcodes that they had applied to that mail, they could not second pass it. In
23 short, presort bureaus do exactly what the USPS does. If this is sufficient for the USPS, why
24 isn't it sufficient to demonstrate the accuracy of industry applied barcodes? But what is sauce
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1 for the goose is not sauce for the gander and presort bureaus are expected to meet an artificial
2 standard far in excess of what is needed by the USPS to process their mail.

3 Since worksharing discounts are calculated on the assumption that worksharing mailers
4 do what the USPS would have to do if workshare mailers had not done it and since USPS applied
5 barcodes are not perfect, workshared mail need not be perfect to earn the discounts. Indeed, to
6 the extent that the mail provided by worksharing mailers is superior to the mail produced by the
7 USPS, the USPS is realizing another windfall not included in the calculation of the discounts by
8 the USPS that are relied upon by Mr. Riley.

10 Finally, on this point, Mr. Riley's MERLIN argument undercuts his own testimony for
11 yet another reason. To the extent that mail fails MERLIN, it will not earn an automation
12 discount! Thus, MERLIN, not Mr. Riley's proposed rates, solves the very problem Mr. Riley
13 believes warrants a reduction in the discounts. The discounts for mail that fails MERLIN will
14 decline alright; they will disappear entirely. Whether that is a fair result is a very interesting
15 question. What would the Postal Inspection Service say if a presort bureau used a device to test
16 one or more qualities of its customers' mail, and based on the results of tests it performed on its
17 customers' mail, the bureau told its customers that their mail could not be bar-coded and would
18 have to be entered at the full rate, but having collected the full rate from the customers, the
19 bureau then processed that customers' mail on its automation equipment and entered it at
20 discounted rates? What should we call this when the USPS does it?

22 In closing, let me say a word or two about the value of worksharing. The problems noted
23 by the USPS in testimony in R2000-1 and in subsequent statements by USPS officials speak
24 more eloquently than I ever could to the value of worksharing. In its testimony in R2000-1,
25 when asked to explain the extraordinary increases in periodicals and Standard Mail flats, the
26 USPS responded that the problem is that they have not been as successful in automating flats as
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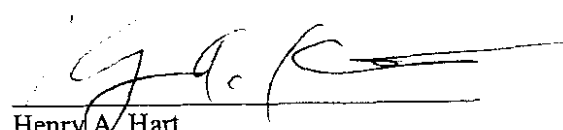
1 they have been in automating letter mail. Nevertheless, in this case, some of the most highly
2 automated mail has received higher percentage rate increases than less automated rate categories.
3 The settlement rates we are asking you to approve have been modified slightly from those
4 originally requested by the USPS in this case in an effort to reduce the disproportionate increase
5 the rates originally requested for 3-digit and 5-digit workshared FCLM would have experienced
6 had those rates been implemented. The increases in the discounts for 3-digit and 5-digit
7 workshared FCLM incorporated into the settlement merely reduce the disproportionate increases
8 the rates originally requested would have imposed. The point being that the very mail that has
9 made possible the very substantial savings produced by automation will still experience rate
10 increases above the system wide average even if the increases in the discounts incorporated into
11 the settlement are implemented.
12

13 With Regard To automated FCLM, Mr. Riley has actually suggested that the savings are
14 declining. I believe that the testimony of Dr. James Clifton and Richard Bentley in this case will
15 refute that assertion. It appears to us that the savings from presort and from automation mail are
16 still growing and that is without considering all of the to date unrecognized savings I have noted
17 in my testimony.
18

19 What is disturbing to other presorters and me is the failure of Mr. Riley to recognize a
20 good thing when he sees it and work with it. Instead of encouraging more worksharing Mr.
21 Riley would have this Commission pull back and punish those who have done the most to
22 increase the efficiency and lower the cost of mail. We trust that this Commission will not adopt
23 that approach.
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2 CERTIFICATE OF SERVICE

3 I hereby certify that I have this 20th day of February 2002, served the foregoing
4 document upon all participants of record in this proceeding in accordance with section 12 of the
5 Rules of Practice.
6

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8 
9 Henry A. Hart
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1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination. One party has requested oral cross-
3 examination, the American Postal Workers Union, AFL-CIO.
4 Ms. Catler.

5 MS. CATLER: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MS. CATLER:

8 Q Good morning, sir.

9 A Good morning.

10 Q In reading your testimony it appears to me that
11 you are a -- that you own and operation, run a presort
12 bureau; is that correct?

13 A Yes, ma'am.

14 Q Okay. And you are very familiar with the presort
15 bureau part of this industry; is that correct?

16 A Yes.

17 Q Are you also testifying that you are familiar with
18 the other half or the other part of the work-sharing mail,
19 those folks who prepare their work-shared mailings without
20 going through an outside presort bureau?

21 A Most of my experience is in the -- is in the
22 process of providing First Class Presorted Mail as a third
23 party. However, our membership does have -- I represent
24 members of our association who prepare their own mail.

25 Q Okay. Could you -- do you know what proportion of

1 the presorted mail is presorted by presort bureau as opposed
2 to presorted by the producers of that mail as part of their
3 production process?

4 A It's a difficult number to quantify because lack
5 of the information from the Postal Service, but we figure 50
6 percent, approximately, maybe a little less, maybe a little
7 more.

8 Q And how do you come up with that number?

9 A This is a rough calculation made based on the
10 published number of pieces of mail processed by the Postal
11 Service on the work-share program, and polls by our members
12 who may or may not be honest about their volumes for
13 purposes of dues paying. So we make that calculation. We
14 always assume it's a little higher than what they tell us.

15 Q I have heard of that kind of a job.

16 Now, how could -- if you wanted to determine what
17 the proportion of presorted mail that was produced by
18 presort -- went through a presort bureau versus presort mail
19 that went through -- that was produced only by the producer
20 of that mail, how would you go about doing that?

21 A I don't know what you mean. I gave you the only
22 way that I would know how to do that. We took the volume
23 that was published from the Postal Service, and from that we
24 looked at the volume of our members. Beyond that, I don't
25 know how I would make the calculation.

1 Q Does the Postal Service get information from the
2 mailers who tender work-sharing mailings that would allow
3 the Postal Service were they to capture that information to
4 do that calculation?

5 A I wouldn't know the answer to that. I'm not privy
6 to the way they gather data.

7 Q Well, when you bring a mailing to the post office,
8 and you have to give them some paperwork, right?

9 A Yes.

10 Q Is the paperwork that is tendered by a presort
11 bureau, is that distinguishable in any way from the
12 paperwork that would be tendered by a company that produce
13 its own mail in a fashion that would entitle it to work-
14 shared discounts?

15 A I would presume that only by knowing the different
16 names of the companies, there is really not much on the
17 paperwork itself other than our name --

18 Q Okay.

19 A -- that distinguishes us.

20 Q Okay. And do you go -- is each company that has
21 the right to go and tender work-shared mailings assigned a
22 number?

23 A Yes.

24 Q Okay. And when you get assigned that number do
25 you provide information to the Postal Service about what you

1 are, whether you are a presort bureau or a producer of mail?

2 A I don't know the answer to that, but I don't think
3 so. I believe we simply applied by name without regard to
4 just indicating whether we are third party provider or doing
5 our own mail.

6 Q Perhaps you can help me. I am obviously having
7 difficulty describing the difference between a presort
8 bureau and people who do their own presorting. I am using
9 different terms each time.

10 A Okay.

11 Q Within the industry --

12 A Okay.

13 Q -- is there -- are there terms of art to describe
14 what you do? You seemed to be using a third party --

15 A We are a bureau. They would be in-house mailers.

16 Q And so it's presort bureaus versus in-house
17 mailers?

18 A That would be a fair way to state it.

19 Q Is there anything else out there that's some kind
20 of in between or some other category of providers of work-
21 shared mail?

22 A In-house mailers are often defined as in-house
23 mailers because they not only presort but they produce the
24 letters, the mail. Some of those are producing mail for
25 themselves, and some of those are producing mail for their

1 customers. So there is a large quantity of businesses that
2 could be considered in-house that are actually doing work
3 for other customers.

4 Q Okay, so that in the industry when you talk about
5 an in-house mailer, that would be not only a company that
6 produced its own mail in a prebar coded and then a presorted
7 way, but also perhaps printed up mail for other people, and
8 did it, but that would still qualify them as an in-house
9 mailer rather than a presort bureau?

10 A Some of those in-house mailers are, of course,
11 members of our association.

12 Q Sure.

13 A For the sake of definition here, sure.

14 Q Okay. So am I right in assuming that when you
15 talk about what a presort bureau does, the presort bureau
16 gets sealed envelopes already prepared and then does
17 something more to them: sorts them, puts bar codes on them,
18 whatever, versus an in-house mailer that actually produces
19 the contents of the mailing, puts it in the envelope and --

20 Q I'm trying to figure out where the line is on
21 these things or whether there are various gradations in
22 here.

23 A There are definitely gradations. For instance, my
24 company, we probably produce 10 to 15 percent of the mail we
25 presort, and the rest of it we collect already produced and

1 sealed, metered.

2 Q Okay.

3 A So from that standpoint, it's a -- the presorting
4 industry is involved at different, each company is involved
5 in different levels of preparation and there is no black and
6 white.

7 Q Okay. Do the presort bureaus and the in-house
8 mailers face different costs of preparing their mail for
9 taking advantage of the work-sharing discounts?

10 A Can you be more specific?

11 Q Okay. Right.

12 Let's take the extreme case on both ends, and talk
13 about them. On the extreme side for the presort bureau I
14 presume would be when you get mainly residual mail from lots
15 of people, and you combine it together and put the bar codes
16 on and presort it to take advantage of rates.

17 On the other extreme would be the utility that
18 goes and prints its bills neighborhood by neighborhood in a
19 street-run sequence and tenders them to the Postal Service
20 in that way with the bar codes on them.

21 Am I capturing the two extremes?

22 A Yes.

23 Q Okay. Can you talk to me about what the costs are
24 first for the presort bureaus to go and satisfy the work-
25 sharing requirements to take advantage of the discounts

1 given what they are starting with, which is a pile of
2 letters versus the -- and then when we get done with that
3 we'll switch over to the utility?

4 A Okay. If you're -- I think you're driving to the
5 fact that we have to provide transportation. We have to
6 provide space for this mail. We have to provide the capital
7 costs of the equipment that are typically MLOCs that are
8 rather expensive pieces of equipment, and the labor of
9 separating mail into the different categories is probably
10 greater than what an in-house operation would do.

11 Q Let's start with transportation. As a presort
12 bureau, do you do -- do presort bureaus typically go and
13 pick up the mail from their customers and bring it to the
14 location of the presort bureau?

15 A Yes.

16 Q Okay. So when you're talking about a cost that
17 you have in order to take advantage of the work-sharing
18 discounts, it's the cost of picking up the mail from the
19 mailers. Okay.

20 Then you talk about space. You're talking about
21 the rent on your facility?

22 A Yes.

23 Q Okay. And by capital costs you're referring to
24 the cost of the various pieces of equipment and maintaining,
25 and the software, whatever, such as the multiline optical

1 character reader?

2 A Yes.

3 Q And then you are also talking about the labor cost
4 of running the multiline optical character reader and I take
5 it and then preparing it to be brought to the Postal Service
6 for --

7 A Yes.

8 Q -- or actually some of the presort bureaus have
9 postal acceptance units right on site, don't they?

10 A Some do.

11 Q So you don't have to actually bring it any place?

12 A Some do.

13 Q The Postal Service would then truck it from there?

14 A Yes. For the -- no, for those presorters that
15 have a detached mail unit, yes. There aren't that many.

16 Q Do you have any idea of what proportion of either
17 the presort volume or the presorters have --

18 A No.

19 Q -- what do you call it, detached mail unit?

20 A No, I don't know that.

21 Q Does your company have one?

22 A My company has a detached mail unit but we provide
23 the transportation.

24 Q From the detached mail to the Postal Service?

25 A To the Postal Service.

1 Q Oh, okay. So that the -- all right.

2 Now, if it were -- now, because you didn't
3 generate any of the mail that you are presorting, all of
4 those costs are ones that are related purely to preparing
5 this mail to take advantage of the work-sharing discounts;
6 is that right?

7 A I guess we do prepare some mail, but for the
8 customers we pick up, yes.

9 Q Okay. Now, turning to the in-house mailer, the
10 utility that we're -- a theoretical utility, now they have
11 to produce their bills anyway.

12 A Yes.

13 Q And they have to put them in envelopes.

14 A Yes.

15 Q And they have to put them in -- they have to print
16 them in a particular order, don't they?

17 A Yes.

18 Q And do you know whether it costs a utility anymore
19 to print in ZIP code order versus any other order that they
20 could go and choose to print their bills in?

21 A Yes, there is.

22 Q And what is the cost of the differential and why?

23 A Well, I can't quantify it exactly. I'm not a
24 mathematician. But for instance, our clients would
25 generally much prefer to print their invoices in account

1 sequence if they could. By printing in account sequence, it
2 makes it no cheaper to produce but it makes it much easier
3 to find problems, to pull bills. It's a much, much better
4 customer service tool for our clients if they could print
5 their accounts in account order.

6 In order to qualify for the presort discounts, of
7 course, they simply can't just put mail in ZIP code order.
8 It has to be prepared according to the postal regulations
9 using the postal-approved software that's available, and so
10 there is a significant cost and a recurring cost to meet the
11 requirements.

12 Q Could you give us an idea of what kind of costs we
13 are talking about there?

14 A I'm not an in-house mailer, and so I don't
15 purchase that software but I can tell you that the software
16 can run 50 to 100 to 150 thousand dollars with annual --
17 with annual updates required as well, depending on what they
18 are trying to sort.

19 Q So for example, if they needed the nationwide
20 package, they would have to pay the top price on that?

21 A And based on -- yes, and based on the classes of
22 mail they are mailing too as well.

23 Q Okay. And the postal-approved software you're
24 talking about, what is the purpose of this software? What
25 does it do?

1 A To comply with postal regulations so these mailers
2 can get their discounts.

3 Q Well, I understand that, but it doesn't just stamp
4 a seal of approval on it. Is it designed to make sure that
5 the letters -- that the addresses are correct and up to
6 date?

7 A Yes.

8 Q How does it do that? What are the things that it
9 does?

10 A Well, once again, I'm not a software expert, but
11 it uses -- the manufacturers take the Postal Service's
12 database and do whatever they do to make sure that when the
13 customers runs his address files through their software it
14 conforms to the requirements for addressing accuracy. It
15 conforms to the requirements of bar code accuracy, and is
16 produced in such a way so that it can be physically handled
17 and presented to the Postal Service as they require.

18 Q Okay. And now the mail that you get that you pick
19 up in the trucks --

20 A Yes, ma'am.

21 Q -- now do your clients have to run their mail
22 through this kind of software before you pick it up?

23 A Absolutely not.

24 Q All right. And how do they get around that
25 problem?

1 A Well, they get around it because they use a third
2 party, and that's use, and we provide -- we provide
3 everything necessary for them to qualify their mail.

4 Q Okay. So that, you know, my little law firm goes
5 and gives a bunch of mail to a presort bureau.

6 A Yes, ma'am.

7 Q And we haven't gone and checked it against all of
8 these things. What happens when it runs through your
9 machines if it -- I mean, if it doesn't match the way the
10 addresses are supposed to be in the software? What does
11 your machine do?

12 A The machine kicks it out.

13 Q Okay.

14 A Separates it from the mail that we will be
15 sorting, and then we -- we do what we can to figure out why
16 that piece got kicked out and we try to put it back in the
17 stream so that it qualifies.

18 Q And how do you do that?

19 A We may have to correct the bar code. We may have
20 to call a customer and check on address files. Generally,
21 we send those pieces along and the customer gets a report.
22 He is incentivized to make corrections because he had to pay
23 full postage for that, so in a round robin way we improve
24 the mail by not qualifying that piece for him, and he
25 doesn't get a discount. He pays full postage, and in order

1 to save postage next time he makes those changes, whether
2 it's in his address file or the envelope quality or the
3 print quality, or so many things that the customer is not
4 concerned about unless there is money involved.

5 Q Okay. At page 1 of your testimony at 25, line 25,
6 you state that the presort industry is providing the
7 supplies needed to process 45 billion pieces of First Class
8 letter mail.

9 How did you come up with this number of 45 billion
10 pieces?

11 A That number was provided by -- it's a Postal
12 Service number.

13 Q And what does the 45 billion pieces signify? The
14 amount of work-shared mail, is that where that comes from?

15 A Yes.

16 Q Okay. You seem to make the assumption that --
17 well, let me go back before I go and ask that question.

18 When in-house mailers, presumably ones who are
19 printing their own stuff, when they take advantage of the
20 work-shared discounts, their bottom line reflects the total
21 savings off of the postage. They get the full advantage,
22 that company gets the full advantage of the discount rates?

23 A Minus their costs, of course.

24 Q Of course, minus their costs.

25 When someone uses a presort bureau to sort their

1 mail, how does the pricing work?

2 A Okay. We are a very competitive industry today.
3 Virtually every city where there is one presort bureau there
4 is another presort bureau. For instance, in my cities, I
5 have competition in both cities.

6 The presorting business has become very
7 competitive and as such is driven down to a significantly
8 lower level than it was 10 years ago the rates that we can
9 charge to our customers.

10 The lion's share of the discounts today go to the
11 mailer, go to the owner of the mail piece, not to the bureau
12 during it. Our rates are competitive rates, and that's
13 about all I can say.

14 Q Well, let me see if I understand this. That if a
15 discount is five cents.

16 A Okay.

17 Q Okay, and as a result of sending his mail to your
18 presort bureau a mailer is able to take the advantage of
19 that five-cent discount.

20 A Yes.

21 Q The way the presort bureau is paid is to keep a
22 proportion of the amount of the discount as their fee for
23 doing the presorting; is that right?

24 A We invoice our customers for a service charge for
25 providing the service, yes.

1 Q And what I am asking is, is it based on some
2 proportion of the savings from the -- to be made eligible
3 for the discount?

4 A Our industry results are added, so we only charge
5 our customers typically when we qualify a piece of mail for
6 a discount.

7 Q Okay. So if the mail comes over and gets kicked
8 out, and you are not able to qualify it for a discount, you
9 don't get paid for that piece?

10 A Correct.

11 Q And so your -- and this is standard in the
12 industry, the way that -- is it standard in the industry
13 what you are describing to me?

14 A It's common practice, but there is no required
15 standard, so it's common practice but I know that every
16 mailer doesn't necessarily do it the same.

17 Q Okay. But you are saying that the -- do you
18 believe it is the predominant way that presort bureaus are
19 paid is a proportion of the savings that they --

20 A Yes.

21 Q -- generate for the mailers that use them?

22 A Yes. Yes.

23 Q Okay. And do you think it's the vast
24 preponderance of the presort bureaus?

25 A Now you're asking me to, you know.

1 Q Well, preponderance got me to half.

2 A Yeah.

3 Q I'm wondering if it's more.

4 A I can't take you much beyond that because our
5 industry is a pretty well-spread industry. It's certainly
6 the preponderance.

7 Q Okay. What other ways of compensating a presort
8 bureau are you familiar with?

9 A The other way that a presort bureau can be
10 compensated is through the value-added refund of the Postal
11 Service.

12 Q Can you explain to me what the value-added refund
13 of the Postal Service is?

14 A The Postal Service has a program known as value-
15 added refunds which allows for instance a presorter to take
16 mail at a postage rate on the piece that it may be a lower
17 discount level, and then qualify that mail for a higher
18 discount level.

19 And if we can qualify that mail at a higher
20 discount level, then we have contracts in place with our
21 customers whereby we either take a portion of that or all of
22 that savings as our income, and then we typically wouldn't
23 bill those customers.

24 Q Okay. Let me see if I've got this right.

25 If your customer -- in your presort bureau for the

1 most part do your customers meter the mail before they send
2 it to you?

3 A Yes.

4 Q Do all of them meter the mail before they send it
5 to you?

6 A No, not all.

7 Q But most do?

8 A Most.

9 Q Okay. And say they meter it at the three-digit
10 rate, but you are able to qualify it for the five-digit
11 rate, is that a situation where the value-added refund would
12 kick in?

13 A Yes.

14 Q Okay. And you are saying that another way of
15 compensating presort bureaus is you keep the difference?

16 A Yes.

17 Q Because the Postal Service will send -- what, send
18 you a check or how do they pay this value-added refund?

19 A By check.

20 Q Okay, so they send you a check for the pieces, the
21 number of pieces that were metered at the three-digit rate
22 that actually qualified for the five-digit rate?

23 A Well, we've got to get paid somehow, I mean.

24 Q I understand that. I just want to understand how
25 this works.

1 A Yes.

2 Q Because when I have been asking the Postal Service
3 and they just sort of think of the presort industry as this,
4 you know, one big amorphous thing, and I understand that
5 there are distinctions, and I -- you know, I want to go and
6 make sure that I fully understand what they are.

7 Are there other ways besides keeping a proportion
8 of the savings or billing for a proportion of the savings or
9 keeping the value-added refund that your aware that presort
10 bureaus are compensated for their services?

11 A I'm not sure. No. Like what? If you have some -
12 - I keep -- you either get paid by the postage payer or you
13 get paid by the postage recipient. I don't know any other
14 choices.

15 Q Are there other ways of calculating how much the
16 presort bureau is paid other than based on the amount of
17 savings?

18 A I -- I'm not sure -- well, we charge a service fee
19 for a lot of -- to a large percentage of our customers and
20 it's simply a service fee for qualifying the mail to the
21 lowest level that it can qualify at.

22 Q So that's like a flat fee?

23 A Sometimes, sure.

24 Q Then on top of that there is the amount of
25 savings?

1 A You mean the value added savings?

2 Q Keeping the value added savings as billing for a
3 proportion of the savings.

4 A No, it's one of the other typically.

5 If you're billing a service fee, you're billing a
6 service fee. If the customer meters his mail by, due to
7 negotiation with us at the lowest level, which many do, then
8 we simply get our service fee and get nothing more. That's
9 the largest percentage volume of our customers. Small
10 mailers. We have a stronger ability to negotiate. But the
11 largest volume of our mail certainly is service fee based.

12 Q And a service fee is based on number of pieces of
13 mail?

14 A Number of pieces that are qualified.

15 Q Number of pieces qualified. A certain dollar
16 amount or cent amount per piece.

17 A Fractions of a cent typically.

18 Q Fractions of a cent per piece.

19 We were running over the costs that are incurred
20 by a pre-sort bureau to go and qualify for work sharing
21 discounts for its customers. We started to talk about the
22 costs that an in-house mailer goes and incurs and you told
23 me about having to keep up to date software to manage their
24 mailing lists.

25 A Yeah.

1 Q What other costs?

2 A They also have to pay for their own -- to pick up
3 their trays. They have to go to the post office on a
4 periodic basis to pick up trays. They have to purchase the
5 same equipment we purchase in terms of strapping and
6 banding. They have to provide labels. They have to have a
7 truck capable of getting this vast amount of mail down -- if
8 they're that large they've got a lot of volume so they have
9 to either contract with a trucking company or own their own
10 semi to take this mail down to the postal service.

11 Q If they weren't trying to take advantage of the
12 work sharing discounts and just you know, the gas company
13 just decided they wanted to mail their bills in any old
14 order and pay 34 cents apiece, how many of these things
15 would they have to do anyway?

16 A Virtually none.

17 Q You mean if they had a large enough collection box
18 outside the gas company they could just put them all in
19 there?

20 A If they had a large enough collection box they
21 sure could. In addition to that, they'd probably put it
22 back into the boxes that they got their forms out of so they
23 wouldn't have to deal with post office trays which we're
24 paid to store. If I was an in-house mailer I'd take those
25 forms and I'd take those envelopes and put them right back

1 in the box that I got it from. That way I wouldn't have to
2 store additional boxes on my facility.

3 Q You talk about having the trouble of picking up
4 postal trays. Maybe not pre-sort bureaus because I don't
5 know that you get that much mail, but I would imagine
6 utilities get a lot of mail and they get it trayed, don't
7 they?

8 A Most likely yes.

9 Q Those are the same trays, aren't they, that they
10 would use if it was --

11 A On the utilities? Utilities represent the
12 absolute far end of the group we're talking about. If we're
13 going to use utilities then we need to keep utilities where
14 they belong which is at the far end of the scale. I don't
15 do utility work because they're not pre-sort customers.

16 Q They're not pre-sort bureau customers.

17 A They're typically not pre-sort bureau customers.
18 But the vast majority of mail isn't a utility mail and they
19 don't have that many bills coming back in, so --

20 Q Well, let's see. The next large category I can
21 think of --

22 When I think of large mailings that go through
23 work sharing I think of utilities, I think of banks, I think
24 of credit cards. Where do the banks fall in the spectrum?

25 A They're not a utility, they don't have the density

1 of a utility. Their mail goes to lots of different places
2 that is not in street order. Probably halfway across the
3 spectrum, maybe a quarter of the spectrum.

4 Q Are banks likely to be in-house mailers or pre-
5 sort bureau customers?

6 A A difficult question to answer. They are both.

7 Q Larger banks?

8 A Larger banks are both as well.

9 Q For the bulk of their mail or their residual mail?

10 A The bulk.

11 Q Okay.

12 A And there's a mix.

13 Q When the mail comes to you from your customers,
14 does it come typically on trays or in boxes or bins or bags
15 or what?

16 A We take in trays so they'll give it to us in
17 trays.

18 Q Okay.

19 As long as we're talking about trays, when mail is
20 entered in trays, especially properly labeled trays, don't
21 they move much more quickly through the Postal Service?

22 A Yes.

23 Q So mail that's not trays, if not trayed, wouldn't
24 the mailing be in danger of avoiding fewer operations like
25 the opening unit?

1 A Can you repeat that? I'm not sure --

2 Q No, I can't.

3 (Laughter)

4 A Come to a pre-sort bureau one day. We'll show you
5 how to do this.

6 Q But trayed mail avoids operations, doesn't it? If
7 it's metered mail.

8 A Yes. I mean it avoids the traying operation, but
9 the only operation --

10 Q What does it avoid? The canceling?

11 A Oh, yes.

12 Q And so that would speed it through the Postal
13 Service and get people better service. Whether or not they
14 got discounts.

15 A Assuming that all of the ways of processing mail
16 in that environment would be the same as they are in today's
17 environment I suppose you're right.

18 Q I was talking about today.

19 A Today, okay. Yeah.

20 Q You list what you characterize as unrecognized
21 cost savings of work sharing first class letter mail at
22 pages two through nine of your testimony. Of the, I want to
23 go through the different items that you have listed and I'm
24 going to ask you about each one of them whether the
25 Commission has ever recognized any of those as legitimate

1 additions to the cost avoided calculations.

2 Has the, starting at page two, at line 14 and
3 going on for a few pages, you talk about capital costs and
4 reversions.

5 Has the Commission ever recognized the capital
6 costs of the pre-sort industry as being a reason to, as
7 being part of the costs avoided by the Postal Service?

8 A I'm not on the Commission.

9 Q In looking at your history you have been around in
10 these things. A Director of the National Association of
11 Pre-Sort Mailers since '97, but have been involved with the
12 industry since 1981.

13 MR. HART: Mr. Chairman, I'm going to object to
14 the question. The witness is not purporting to be an expert
15 on Commission precedent. This issue can be addressed and
16 I'm sure will be addressed in briefs as to what the
17 Commission has or hasn't done in the past on this.

18 The sole point for which this testimony was
19 offered was to demonstrate that there are costs that are not
20 being recognized in the measurement of cost avoidance by Mr.
21 Miller.

22 CHAIRMAN OMAS: Would you proceed?

23 MS. CATLER: Sure.

24 BY MS. CATLER:

25 Q Let me ask you a different question about your

1 testimony on capital costs and reversion which goes from
2 page two, line 14 or so, to line three, page three, line
3 13.5.

4 What you're talking about here is costs of pre-
5 sort bureaus, is that right?

6 A Yes.

7 Q These are not costs that are of the Postal Service
8 or costs saved of the Postal Service.

9 A No.

10 Q Let's talk about the next one, the avoided
11 maintenance costs. What you're talking about here is you're
12 talking about the maintenance cost, this is page three,
13 lines 14 through 17. You're talking here about the
14 maintenance costs that pre-sort bureaus incur, not the
15 maintenance costs the Postal Service incurs, right?

16 A Once again, I think I should probably correct
17 myself. As we talk about the costs of the pre-sort bureaus
18 I'm not talking about the avoided costs but by implication
19 our expenses and expenditures represent a corresponding
20 decrease in need of capital costs and maintenance costs by
21 the Postal Service. So there is a balance between the fact
22 that these are our capital expenses. And while I certainly
23 didn't refer directly to what the Postal Service's costs
24 are, there's some sense that a piece of mail acquired and
25 fully utilized by a pre-sort bureau to process mail is a

1 piece of equipment the Postal Service doesn't need to own to
2 process that same piece of mail.

3 Q Doesn't that make an assumption about the capacity
4 of the Postal Service to handle additional mail?

5 A As far as I know the entire purpose of work share
6 from the very beginning has been based on an opportunity for
7 the Postal Service to reduce its costs and shift
8 responsibility for mail processing away from itself.

9 I would assume they would do it for good reasons.
10 I would assume those discounts wouldn't be there unless the
11 Postal Service already understood what its capacity issues
12 were. Capacity over a 24 hours period of time with an MLOC
13 is irrelevant to capacity in the four to five hour window
14 that the Postal Service has on a nightly basis in order to
15 meet its service standards. So it becomes a difficult
16 calculation. I have to rely on the Postal Service.

17 Q Let's talk about your pre-sort bureau, though. If
18 another customer comes to you and wants to be running, I
19 don't know, a couple thousand pieces of mail through your
20 pre-sort bureau each night, you're not probably going to
21 have to go buy another MLOC to go and handle that are you?

22 A Not for a couple of thousand pieces, no.

23 Q So for you, given what you've already got there --
24 your machinery, your labor, whatever -- there isn't an
25 additional capital expenditure within certain ranges for

1 increased volume, is there?

2 A We are business -- You can't describe it as just a
3 moment of running it through the machine. There are so many
4 other things involved. That customer who has a couple of
5 thousand pieces, I may require his mail be brought in
6 earlier. I may not have a truck available to pick that mail
7 up. There may be incremental costs in dealing with kind of
8 the ancillary services we provide that do make it difficult
9 for me to pick up a couple of thousand pieces. There are
10 issues that go beyond the capacity of that machine, and
11 there are windows. If that same customer comes to me at
12 7:00 o'clock in the evening and says I want to give you my
13 mail at seven, the answer is no. If he wants to give it to
14 me at three and he's doing it because he recognizes he's
15 going to save money by doing that then the answer could be
16 yes. But sometimes we have to say no. Sometimes we don't
17 have capacity.

18 Q On maintenance costs isn't the calculus also the
19 same? You're going to be going and maintaining your
20 equipment. Obviously if it gets a whole lot more use you
21 may have to do additional maintenance but if there's a
22 marginal increase in usage your maintenance costs shouldn't
23 increase, is that right?

24 A Maybe marginally.

25 Q Okay.

1 A Maybe I can answer that, too. Periodic
2 maintenance is based on volume and I think I should be fair
3 to this statement, I don't want to be flip. Periodic
4 maintenance is typically based on volume and if you increase
5 volume then you're going to increase the periods of
6 maintenance. You're going to decrease the period between
7 maintenance times.

8 Q You seem to make the assumption that to lower the
9 discount will result in all the work shared mail flowing
10 back to the Postal Service. Is that really your belief as
11 to what will happen?

12 A I don't think I make the assumption at all that
13 mail would flow back to the Postal Service. I think it's a
14 statement that there is a portion of mail, a significant
15 portion. I don't think I say all, do I?

16 Q For instance at the bottom of page two when you
17 talk about five million square feet of work space used to
18 process automation mail you say at line 23, "This is space
19 the Postal Service does not currently have but would have to
20 have to process the 45 billion pieces of work shared mail
21 presented to it annually."

22 That sounds to me like you're thinking about
23 having it all revert.

24 A Well, that's kind of a theoretical statement. If
25 it all went back this is what it would cost the Postal

1 Service.

2 Q Okay. Well, what is your belief? Would lower
3 discounts result in an all work shared mail flowing back to
4 the Postal Service? Or what proportion?

5 A That's such a tough question because I don't know
6 what's in the minds of each of my customers because they
7 make the individual decision as to what to do with their
8 mail. Lower discounts could also result in the removal of
9 this mail from the first class mail stream entirely.

10 Q Where would it go?

11 A The banks are using statements by line; insurance
12 companies would certainly love to send stuff to their
13 customers and have them print it in their own house. Yet
14 one reason that we think, we keep the mailers - We're still
15 cheaper than first class. So -- Significantly cheaper than
16 first class, the service we provide.

17 I think if the discounts were to disappear, we'd
18 lose some volume and I think the Postal Service would lose
19 some volume as well.

20 Q To electronic --

21 A Some.

22 Q To where else would it go?

23 A Well, based on the laws of the Private Express
24 statutes there really isn't any place else for it to go
25 other than out of your system completely or into the unit

1 postal stream.

2 Q So you're saying that banks would stop mailing
3 statements?

4 A I'm saying that if they thought they could, if
5 they could poll their customers and establish a large enough
6 percentage of customers who didn't want to get it in the
7 mail that that would -- the higher the price to mail the
8 greater the incentive to find another solution. That's all
9 I'm saying.

10 Q But I was saying not just electronic diversion,
11 but that they would just stop mailing, stop sending them.

12 A They can't stop communicating with their
13 customers.

14 Q So their choices at this point are mail --

15 A Yes.

16 Q -- and electronics.

17 A I think those are the two choices.

18 Q And is the pre-sort industry working on electronic
19 options to provide its customers?

20 A We're a paper paste business. I don't think we're
21 really going in that direction. We work as a partner with
22 the Postal Service processing paper and moving envelopes.

23 Q Have you looked at the rates that the APWU have
24 proposed?

25 A I can say that I've glanced at them but I've not

1 studied them.

2 Q If the Postal Service were sorting and bar coding
3 the mail itself, would it be necessary to prepare it like
4 pre-sort mail is prepared? That is sleeves, draft and
5 labeled?

6 A I don't understand that question.

7 Q On page three of your testimony at lines one
8 through three, you make the assumption the Postal Service
9 would require 1,000 more multi-line optical character
10 readers than it right now has to process mail that returns
11 to the single piece mail stream after discounts were reduced
12 by one to two cents.

13 On what basis do you make that assumption?

14 MR. HART: Could you give us a line number,
15 counsel?

16 MS. CATLER: Lines one through three.

17 MR. HART: On page?

18 MS. CATLER: Three.

19 MR. HART: Thank you.

20 THE WITNESS: I apologize, but could you ask me
21 that question one more time? I'm not exactly sure where
22 you're going.

23 BY MS. CATLER:

24 Q On page three of your testimony lines one through
25 three, you appear to be assuming that the Postal Service

1 would require a thousand more multi-line optical character
2 readers than it has right now to process mail that returns
3 to the single piece mail stream if discounts were reduced by
4 one to two cents. On what basis do you make this
5 assumption?

6 A We make this assumption based on the necessary
7 MLOCR capacity to process the mail we process in the windows
8 that the mail is available. Once again it comes down to
9 availability and windows of when the mail is available.

10 The assumption that all 1,000 mass certified
11 MLOCRs would be required by the Postal Service is an
12 assumption. But we know as an industry that our capacity is
13 in a very short period every day and it's the same as the
14 Postal Service. So a significant number of MLOCRs would
15 have to be installed to process the mail we currently
16 process. A significant percentage of that thousand.

17 Q At page four of your testimony, line nine, you
18 state that without the incentives provided from work shared
19 mail there would be no reason for mailers to submit mail in
20 the form that would permit mail to be automated.

21 Do you anticipate that large mailers would start
22 oh, illegibly handwriting all their mail pieces if there
23 were no discounts for work shared mail?

24 A No, but what I do believe is that the overriding
25 issues of presentability of the mail piece, marketing

1 opportunities, and just flat, the creative design efforts of
2 people in departments that aren't concerned about postage
3 would carry the day with many of these customers and I
4 believe deeply in my heart that things like bar code clear
5 zones would not be respected, that issues of the quality of
6 the font, the readability of a font would not be considered,
7 that concerns about the undeliverables addressed issues and
8 whether the mail is going to the right place the first time
9 would be of a lower concern. That in fact without a
10 discount these customers, other issues with regard to a
11 letter would become more important.

12 Q Wait a second. If somebody is sending a bill,
13 they're going to want to make sure that bill gets there
14 quickly and gets to the right place so they get paid
15 promptly. Right?

16 A And yet that assumes that they're not balancing
17 that against their own individual production costs, their
18 own scheduling issues. When it comes to moving paper and
19 putting it in envelopes there are a lot of variables. And
20 one of those is the cost to do it. If you can build in
21 another couple of days of service and reduce your costs to
22 produce it, it might be worth a tradeoff.

23 Q So are there other reasons such as their own cash
24 flow and response rates that encourage large mailers to
25 produce automation compatible mail and keep their mailing

1 lists up to date, other than work sharing discounts?

2 A Those become part of the mix at that point for
3 that customer. That becomes part of his number of different
4 choices of how he chooses to put his mail together.

5 Q Wait a second. You're telling me that if somebody
6 is sending me a bill. I owe my mortgage. I owe -- Let's
7 not talk about my mortgage. I owe somebody a couple of
8 thousand dollars, and I presume that getting that couple of
9 thousand dollars earlier rather than later is of interest
10 and generates interest to the recipient of that couple of
11 thousand dollars, is that right?

12 A The very nature of these customers you're talking
13 about, these are very large corporations that you'd be
14 talking about. And I don't mean to be argumentative, but I
15 just don't believe that. Because frankly you have different
16 departments doing different things in every large
17 corporation, and frankly the people at the end of the line,
18 the ones controlling the mail, are not necessarily the ones
19 that are worried about cash flow. They're the ones worried
20 about getting the paper out the door.

21 Q When I talk to the guy from Sprint he's not going
22 to be as concerned -- You think he's going to be more
23 concerned only about the postage savings, not about the
24 speed of the --

25 A I didn't say that.

1 Q -- coming back.

2 A These large corporations have different
3 departments and each department has its own reason for doing
4 things. Assuming they've got a monolithic purpose that they
5 follow, it doesn't seem to work very well in corporations I
6 deal with, so --

7 Q So you're saying that the Postal Service standard
8 for mailability of work shared mail are, think that it will
9 be good business practice anyway but only because of the
10 discounts do mailers actually do that stuff.

11 A If the Postal Service had no -- You're going
12 places I wasn't expecting to go. But if the Postal Service
13 had no delivery standards of its own for first class mail
14 then there would probably be a much greater push, but --

15 Q I'm not talking about delivery standards. I'm
16 talking about the standards for the production of the piece
17 of mail. Delivery standard is something else.

18 A I'm no --

19 Q Is there no standard saying that you must have the
20 letter looking like this in order to take advantage of the
21 work sharing discount? Those standards. That's what I'm
22 talking about.

23 A Boy, I am just totally confused. I'm sorry.

24 Q All right.

25 You seem to be saying that the mail pieces that go

1 through work shared mail have to comply with certain
2 standards in order to take advantage of the discounts
3 provided to work shared mail.

4 A Yes.

5 Q And that complying with those standards also,
6 those automation standards, also goes and makes the mail
7 easier and faster to process for the Postal Service.

8 A Correct.

9 Q And what I was asking you had to do with whether
10 people in companies would do that in order to speed their
11 mail without the work shared discounts. And you seem to be
12 saying that in the fight between the mail room people to get
13 it automation compatible and the creative folks who want to
14 put everything in blue envelopes or something, put
15 advertising slogans down on the bottom where the bar code
16 space should be, that without the discounts the folks who
17 are arguing for the mail to be produced in a way that's
18 automation compatible would lose out.

19 A Marginal decreases in the readability of mail
20 would clearly happen. How large a decrease in readability
21 and over what period of time we simply don't know. And the
22 reason I referred to Postal Service's delivery standards is
23 because these customers can simply rely on the fact that
24 they paid full 32 cents or 37 cents for the mail and they
25 are counting on the Postal Service to deliver as the Postal

1 Service has promised, according to its first class delivery
2 standards. Irregardless of whether there's a clear zone,
3 irregardless of what the font is, irregardless of what the
4 print quality is, irregardless of their reflectivity.

5 Those issues would simply become the post office's
6 concern. They promised me they'd get this here tomorrow and
7 they didn't.

8 Now it's not me, it's the post office, because geez, I'm
9 doing everything that I have to do. I've addressed it, its
10 in a nice pretty font that I like, it's appealing to my
11 customers, our marketing department says we get a better
12 response rate, and it's the Postal Service -- At that point
13 they can simply rely on the Postal Service to "do their
14 job". And I think you get a significant number of mailers
15 who do that over time.

16 This is not a light switch that would happen
17 overnight, this is a change that over a period of time -- We
18 worked very hard to adjust the behavior of these mailers in
19 the last 10-15 years. I've spent thousands and thousands
20 and thousands of dollars on customer service reps to go to
21 my customers. I have four of them on staff. And they spend
22 most of their time dealing with readability issues with our
23 clients.

24 Even we in our industry have a constant battle in
25 getting our customers to recognize you have to change print

1 ribbons, that they can't stick as much stuff into an
2 envelope, that they have to make sure that the envelopes
3 don't stick together. All these things that we deal with on
4 a daily basis.

5 Q Has the Postal Service ever said to mailers, to
6 your knowledge, in prior rate cases that mailers cannot
7 expect the work share discounts to continue to increase
8 because costs avoided have been going down?

9 A Okay. Has the Postal Service to my knowledge ever
10 told my customers this?

11 Q Well, actually I'm more concerned whether you've
12 noticed it as someone in the mailing industry.

13 A We haven't noticed that the costs avoided are
14 going down. They're increasing. The costs avoided for our
15 industry are increasing, not decreasing.

16 Q And that costs avoided in the way you're
17 calculating it --

18 A As we calculate --

19 Q But as the -- Have you ever been made aware that
20 in prior postal rate cases the Postal Service has said to
21 mailers that mailers cannot expect the work shared discounts
22 to continue to increase because cost avoided has been going
23 down as they calculate it?

24 A Yes, but we believe those calculations have been
25 wrong. So while they've said that we believe the

1 assumptions an the methodologies that the Postal Service has
2 used have been wrong and that ultimately our reason will
3 avail and they will understand that there really are
4 different cost numbers.

5 Q Have you ever taken those warnings from the Postal
6 Service seriously in making the investment plans for your
7 business?

8 A We believe the Postal Service is a reasonable and
9 logical institution and as we continue to present our point
10 that they will see that there are areas of cost avoidance
11 that they have not measured and are not measuring properly.

12 I believe that our industry will always provide
13 benefit to the Postal Service.

14 Q I take it that the answer then to my question is
15 no.

16 A Yeah.

17 Q Okay.

18 In your testimony at page nine, lines 21.5 to 25,
19 you state that following that August 2, 2001 meeting the
20 USPS recognized that Merlin had been programmed to "fail
21 mail" that can be and is processed every day on the Postal
22 Service's automation equipment and has reprogrammed Merlin
23 several times since then.

24 What do you base this statement on that the Postal
25 Service has recognized this?

1 A My personal experience. I was in the meeting.

2 Q You say you were at the August 2nd meeting, but it
3 says following that August 2nd meeting the Postal Service
4 recognized these things and I'm wondering what's the basis
5 for that statement?

6 A As a result of the meeting we were informed, the
7 industry was informed that the Postal Service had taken
8 specifications used in Merlin to measure bar codes and
9 change those specifications to more accurately reflect the
10 readability of those bar codes on its own machines and to
11 make sure those specifications were consistent with the
12 other measuring device they used which was called Abe. Abe
13 was a very effective device in measuring bar code
14 readability.

15 Q And how were you informed of this after the August
16 2, 1001 meeting?

17 A Frankly, direct comments from Michelle Benning
18 who's a Postal Service representative who basically came
19 right out and said we're going to look at this and we're
20 going to make sure that Merlin reads like Abe. It was said,
21 according to comments made to me, when Merlin originally
22 came out the specifications were exactly as they are in the
23 printer's guide which are lithographers standards, and I
24 would challenge you that no MLOC, whether they're owned by
25 a pre-sort bureau or the Postal Service is capable of

1 meeting that standard. Nor do the bar code readers require
2 that standard.

3 So in recognition of that the Postal Service
4 adjusted the way Merlin was functioning.

5 Q Have you seen anything in writing that goes and
6 supports the statement that you've made on page nine
7 concerning lines 21.5 to 25?

8 A I believe our executive director has in his
9 possession a letter that confirms this.

10 Beyond that it's very difficult to get a letter
11 out of the Postal Service sometimes.

12 Q As the attorney for the American Postal Workers
13 Union, I certainly do understand that. But I also
14 understand hearsay and I have a little trouble with
15 statements that are based on what someone told me, so if
16 there is any documentation to support this statement I think
17 that it should be provided.

18 A The statement was made by the director of that
19 department and the person who has overall oversight for that
20 piece of equipment, and it was made in front of a number of
21 mailers. I have a hard time believing that this person would
22 compromise their integrity in front of this group of
23 mailers.

24 Q I'm just pointing out rules of hearsay which I
25 understand that the rules of evidence do not govern this

1 proceeding but there are some rules and I think that
2 statements should be supported.

3 A The idea that a machine is not being -- One of two
4 things happened. Either the standards, either the
5 specifications on the machine were adjusted or the mailers
6 responded extremely quickly to this change. One of the
7 other happened because when Merlin first came out
8 everybody's bar codes failed. Everybody's bar codes failed
9 on mail that was being run through machines that had already
10 read the bar code once. A typical MLOCR user produces a bar
11 code then uses the bar code to sort the mail.

12 What we found was that Merlin was failing our
13 mailings at between a zero and ten percent rate on mailing
14 that we had already run through our bar code sorters and
15 sorted at least once again. So we know the bar codes are
16 very readable, and yet Merlin said they were not readable at
17 all. So there had to be something there.

18 Q Okay. Moving on.

19 At the bottom of page nine, line 27.5 and
20 continuing on page 10 through line 2, you say that according
21 to Tom Day, USPS Vice President for Engineering, the USPS'
22 automation equipment currently reads and processes more than
23 98 percent of the bar codes applied by work sharing mailers.

24 In what context did Mr. Day provide you with that
25 information?

1 A Those numbers have been given at MTAC, Mailers
2 Technical Advisory Committee, and basically talking about
3 the productivity of his equipment. And I'm pretty sure it
4 refers to letter sized mail.

5 Q Any information provided you in writing to go and
6 support the statements that you have in your testimony?

7 A I do not have a document from Mr. Day that states
8 that.

9 Q On page ten of your testimony, lines 7 through 10.
10 You state, "The good bar codes are the ones supplied by work
11 sharing mailers. Since some of the equipment I use to bar
12 code first class letter mail is the same as the equipment
13 used by the United States Postal Service to bar code first
14 class letter mail, I know that my equipment can produce bar
15 codes as good as those applied by the United States Postal
16 Service."

17 Do you have any reports, studies or other
18 documents to support your statement?

19 A This is something we've wanted for years.
20 Frankly, we have asked the Postal Service to allow us to
21 compare the quality of our bar codes against the quality of
22 theirs and have never been permitted to. Nor has the Postal
23 Service ever agreed to run its mail against the Abe machine
24 or the Merlin machine so that the industry has a sense that
25 one, these machines are working properly; or two, that the

1 Postal Service is living up to the same standard it requires
2 from us.

3 So while I do not have any documentation, I would
4 bet my bottom dollar based on the fact that they will not
5 allow us to compare and I will compare from my shop on any
6 given day of the week at any time the Postal Service would
7 like. We would be more than happy to compare bar codes.

8 Once again, my operation sorts an up-mail that's
9 local mail. First off, we've sorted it at least twice, then
10 we take it to our post office. They then are sorting it
11 locally and delivering it locally in our areas, and if we
12 were producing bad bar codes, we would have heard about it.
13 I have a very good relationship with my Postal Service.
14 They cannot afford to have me -- I deliver -- Twenty-five
15 percent of the first class metered mail every day comes
16 through my shop into that area, into that district, that
17 post office area, that PMDC. If my bar codes were not as
18 good as theirs I would have heard about it because they
19 couldn't afford to re-run all that mail that they couldn't
20 read in the bar codes.

21 Q You state that pre-sort bureaus check their bar
22 codes. Is this true of all pre-sort bureaus?

23 A The machines themselves check the bar codes. Each
24 MLOCR has a bar code verifier on it which does check the bar
25 code. IN addition to that, the act of running the mail a

1 second time to achieve a lower discount by sorting the mail
2 to a finer level and using that bar code is a check in and
3 of itself.

4 Q So you're saying that pre-sort bureaus clearly do
5 this because they use the MLOCs. What about in-house
6 mailers?

7 A In-house mailers that are using MLOCs check the
8 bar codes. In-house mailers that have bar codes applied in
9 a window don't check the bar codes.

10 Q Okay.

11 The purpose of -- When you put on bar codes and
12 pre-sort mail, you and your costumers pay a lot less money
13 for each letter as a result of having done that, isn't that
14 right?

15 A My customers do. Remember, I'm just paid for my
16 service.

17 Q But that letter pays a lot less to go traveling
18 through the postal system than if you hadn't done those
19 things, isn't that right?

20 A Pre-bar coded and sorted, yes.

21 Q The purpose of Merlin is to make sure that pieces
22 that are not entitled to get that discount don't get the
23 discount, isn't that right?

24 A That would be the purpose of Merlin. We have an
25 issue about how Merlin functions, of course, but --

1 Q I appreciate that, but we're just talking about
2 the purpose. The purpose is to make sure that if you're
3 getting the discount you deserve to get the discount.

4 A Yes.

5 Q And in other words, so the Postal Service makes
6 sure that they get what they pay for.

7 A Absolutely.

8 Q And any good business would want to make sure that
9 when they're paying for something they're getting it, right?

10 A And when -- Yeah.

11 Q These are big bucks for the Postal Service, right?

12 A It is.

13 Q When the Postal Service puts a bar code on,
14 nobody, no money changes hands on that one, does it?

15 A No.

16 Q So the consequence of the Postal Service bar code
17 being not, not working or not being the correct one, there
18 would be no financial consequences in the sense that the
19 Postal Service had paid somebody to put that on and didn't
20 get what they paid for. Is that right?

21 A If you're limiting the consequence that narrowly,
22 yeah, but the consequence of the Postal Service in bad bar
23 code is reworked mail. Higher labor costs, lower delivery,
24 slower deliveries. There are a lot of reasons why bad bar
25 codes produced by the Postal Service are as bad for them as

1 they are when they're produced for us.

2 Are you saying the Postal Service has a lot of bad
3 bar codes?

4 Q No, of course not.

5 A Sorry.

6 Q What I'm saying is that no one has been paid to
7 put on a bar code that the Postal Service puts on, paid
8 money to provide a service to the Postal Service.

9 A That's true.

10 MS. CATLER: I have no further questions for this
11 witness at this time.

12 CHAIRMAN OMAS: Mr. Hart, would you like some time
13 with your witness?

14 MR. HART: As I suspect others, I would dearly
15 like to conclude this by lunch. I think three or four
16 minutes --

17 MR. TIDWELL: Mr. Chairman, I just have one brief
18 question.

19 CHAIRMAN OMAS: I'm sorry. I apologize.

20 MR. TIDWELL: I would have said good morning
21 awhile ago, but it's good afternoon, Mr. Gillotte.

22 CROSS-EXAMINATION

23 BY MR. TIDWELL:

24 Q If I can direct your attention to page four of
25 your testimony. Down toward the bottom of the page, lines

1 23 through 26. There's a sentence that reads that "The
2 Postal Service asks this Commission to indulge in the
3 fantasy that all or the vast majority of the mail processed
4 by work sharing mailers of first class letter mail would
5 arrive at the USPS fully automatable without any incentive."

6 I'll not indulge any cross-examination about the
7 fantasy portion of the statement but would like to focus
8 your attention towards the end of the sentence and ask you
9 what you mean by fully automatable.

10 A An automatable piece of mail is defined by certain
11 characteristics of that piece of mail. The thickness, its
12 aspect ratios, the readability of the fonts, the opportunity
13 of the piece to have a bar code clear zone where the Postal
14 Service could put a bar code,. There are a lot of aspects
15 to a piece of mail that make it fully automatable. And any
16 number of which if it's not done can make a piece of mail
17 totally non-automatable. If it's too thick, if it's the
18 wrong shape, if it's, and aspect ratio is a terribly
19 important part.

20 If the printer is using a font that's very pretty
21 but not very readable. All of those come together to form a
22 piece of mail that works in the Postal Service's automation
23 program. A number of those different aspects of that piece,
24 if they're not done properly the piece wouldn't be
25 automatable.

1 Q When you say the Postal Service is asking the
2 Commission to indulge in this fantasy, are you referencing
3 some testimony in this proceeding?

4 A This has been a recurring theme that we in our
5 industry have seen the position of the Postal Service in the
6 past, so whether it's this case or the last case is more of
7 a sense of our belief that the Postal Service assumes things
8 would be done for no reason and we don't believe that.

9 Q But you're not certain whether the Postal Service
10 is saying that in this case.

11 A I don't think -- I think especially in light of
12 the issues of the fact that we're dealing with these
13 settlement issues that we haven't really experienced the
14 Postal Service's position exactly that way.

15 Q So there's nothing in the record, in the Postal
16 Service's testimony in this case that would support this --

17 A Fantasy?

18 Q -- this statement that it's indulging in a
19 fantasy.

20 A No, sir.

21 MR. TIDWELL: That's all we have.

22 CHAIRMAN OMAS: Is there any additional follow-up?

23 (No response)

24 CHAIRMAN OMAS: Mr. Hart?

25 MR. HART: If any, I would not expect our Redirect

1 to be more than five minutes. If I could haven three or
2 four minutes with the witness.

3 CHAIRMAN OMAS: Why don't we take a couple of
4 minutes and we'll be back.

5 Ms. Catler, could I ask you, do you have any idea
6 how much time you'll require on the next, the other three
7 witnesses? Do you have any guesstimate at all?

8 MS. CATLER: There are four.

9 CHAIRMAN OMAS: Four, excuse me. Wishful
10 thinking.

11 MS. CATLER: It's hard to figure out with Mr.
12 Bentley whether he's accountable for two people -- two
13 witnesses or one person. But no, I have no idea.

14 CHAIRMAN OMAS: All right. Why don't we take five
15 and come back and we'll make some determination about this
16 afternoon.

17 Thank you.

18 (Recess taken)

19 CHAIRMAN OMAS: Mr. Hart?

20 MR. HART: Thank you.

21 REDIRECT EXAMINATION

22 BY MR. HART:

23 Q Mr. Gillotte, the counsel for APWU asked you
24 several questions about possible differences or distinctions
25 between mail delivered by pre-sort bureaus and then mail

1 delivered by internal mailers, in-house mailers.

2 A Yes, sir.

3 Q Which was the term you used? Internal or in-
4 house? I'm sorry.

5 A In-house.

6 Q In-house mailers.

7 My question is, regardless of whether mail is
8 delivered to the Postal Service by pre-sort bureau or to the
9 Postal Service by an in-house mailer, the requirements for
10 qualification for the automated discount are the same, are
11 they not?

12 A Yes, they are.

13 Q You also had a question from counsel for APWU
14 concerning whether or not on the Merlin issue, whether or
15 not an in-house mailer that didn't have an MLOCR might
16 engage in any other functions that would cause it to recheck
17 the bar. The point being that an in-house mailer with MLOCR
18 or a pre-sort bureau with MLOCR as a result of the need to
19 do further sorting places the letter with the bar on the
20 MLOCR and that tells it whether or not the bar code works.

21 But if you have an in-house mailer without an
22 MLOCR the question was would that mailer perform any
23 functions that would require it to retest the accuracy of
24 the bar code, and I believe your statement was you thought
25 not. My question is, you are not an in-house mailer, are

1 you?

2 A No, I'm not.

3 Q Is it possible that someone such as Mr. Crider who
4 will testify later today, who is an in-house mailer might be
5 able to shed additional light on that issue?

6 A Absolutely.

7 MR. HART: That's all I have. Thank you.

8 CHAIRMAN OMAS: Thank you, Mr. Hart.

9 Mr. Gillotte, that completes your testimony here
10 today. We appreciate your appearance and your contribution
11 to our record. Thank you and you are now excused.

12 Ladies and gentlemen, it is now five minutes of
13 one. I think we will take a 35 minute lunch break. We will
14 be back here at 1:30. Thank you.

15 (Whereupon at 12:55 p.m. the hearing was recessed,
16 to reconvene at 12:33 p.m. this same day, Tuesday, February
17 26, 2002.)

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A F T E R N O O N S E S S I O N

(12:33 p.m.)

CHAIRMAN OMAS: Mr. Hall?

MR. HALL: Thank you, Chairman Omas.

Major Mailers Association would like to call John
D. Crider to the stand.

CHAIRMAN OMAS: Mr. Crider, would you raise your
right hand?
Whereupon,

JOHN D. CRIDER

having been first duly sworn, was called as a witness
herein, and was examined and testified as follows:

CHAIRMAN OMAS: Please be seated.

Mr. Hall?

MR. HALL: Thank you.

DIRECT EXAMINATION

BY MR. HALL:

Q Mr. Crider, do you have before you a document
entitled surrebuttal testimony of John D. Crider, CM/DSM on
behalf of Major Mailers Association?

A Yes, sir.

Q And that is identified as exhibit MMA-SRT-2, is it
not?

//

//

1 (The document referred to was
2 marked for identification as
3 Exhibit No. MMA-SRT-2.)

4 A Yes, it is.

5 Q Was that testimony prepared by you or under your
6 direction and supervision?

7 A Yes, it was.

8 Q And you adopt it as your sworn testimony in this
9 proceeding?

10 A Yes, I do.

11 MR. HALL: Chairman Omas, at this point I would
12 like to move the testimony of Mr. Crider into evidence. I
13 have provided two copies to the Reporter.

14 CHAIRMAN OMAS: As I noted earlier, there is a
15 pending motion to strike portions of this testimony by APWU.

16 Are there any additional objections?

17 (No audible response)

18 CHAIRMAN OMAS: I will direct counsel to provide
19 the Reporter with two copies of the corrected Direct
20 testimony of John D. Crider. That testimony is received
21 into evidence and will be transcribed in the record at this
22 point.

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1 (The document referred to was
2 marked for identification as
3 MMA-SRT-2 and was received in
4 evidence.)

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SRT
Exhibit MMA-~~ST~~-2

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

Postal Rate and Fee Changes

Docket No. R2001-1

**SURREBUTTAL TESTIMONY OF
JOHN D. CRIDER, CMDSM
ON BEHALF OF
MAJOR MAILERS ASSOCIATION**

February 20, 2002

Direct Testimony of John D. Crider, CMDSM
On Behalf of
Major Mailers Association

I. INTRODUCTION

A. Statement of Qualifications

My name is John D. Crider. I am the Manager of Postal Affairs for Sprint Mailing Services located at 14625 W. 100th Street, Lenexa Kansas 66215. Sprint Mailing Services is responsible for mailing invoices, payroll checks, accounts payable checks, W2's, 1099's and other customer mailings for Sprint. Sprint Mailing Services processes approximately 32 million mailpieces per month and spends approximately \$150 million plus in postage annually. Sprint is a member of Major Mailers Association (MMA).

I have a total of 12 years experience in the mailing industry beginning in 1990 as an inserter operator inserting invoices, etc. In 1994 I was promoted to supervisor over the mailing operations in Kansas City. In 1996 I was promoted to Production Manager for the Kansas operation. In 2000, I took the position of Manager of Postal Affairs for all three Sprint Mailing Services locations (Kansas, California and Florida).

In April 1998 I received my certification as a Certified Mail Distribution Manager. I am on the Board of Directors of MMA. I am past industry co-chair of the Greater Kansas City Postal Customer Council (two terms). I am a member of the Mail System Management Association. I am actively involved with postal reform serving as Lead for MMA working with Deborah Willhite, Senior Vice President of Government Relations & Public Policy for the US Postal Service. I am currently working on Mailing Technical Advisory Committee (MTAC) subcommittees.

B. Purpose and Summary of Testimony

In the unique circumstances of this proceeding, the USPS and all mail groups representing diverse, often conflicting interests were able to come together, cooperate, and reconcile their differences in a Stipulation and Agreement¹ (S&A) that has garnered overwhelming support. The parties did so thanks in large measure to this Commission's

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

1 leadership. The S&A will provide fair and equitable rates for mailers and additional
 2 revenues to the Postal Service three months earlier than if the entire case had to be
 3 litigated.² Mr. Bentley has informed me that the slightly lower workshare discounts
 4 agreed upon in the S&A will lower test year revenues by about \$82 million. In return,
 5 the Postal Service stands to gain an additional \$600 million from the earlier
 6 implementation date. We believe it is important for the Postal Service to regain its
 7 financial well being and we are prepared to do our share.

8 Sprint Mailing Services is a signatory and strong supporter of the S&A. The
 9 primary purpose of my surrebuttal testimony is to respond to APWU witness Riley's
 10 claims that the First Class workshare discounts in the S&A and, apparently, even the
 11 current discounts, are too high and exceed the cost savings as calculated by USPS
 12 witness Michael Miller. Sprint and other MMA members are concerned that APWU is
 13 attempting to capitalize on the ongoing economic recession, the tragic 9/11 attacks, and
 14 the anthrax incidents to impose a disproportionately large postal rate increase on First-
 15 Class workshare mailers in this case. Contrary to APWU's narrow view of the world,
 16 these unfortunate developments have had an adverse impact not just on APWU
 17 members and the finances of the USPS, but on the entire Nation, including business
 18 mailers large and small, and the millions of people they employ. During these difficult
 19 times, mailers are experiencing many of the same problems that the USPS is
 20 experiencing. While we have empathy and do understand the position that the Postal
 21 Service is in, the Commission needs to understand that the industry is going through
 22 hard times as well. At Sprint, we have had layoffs (something APWU members have
 23 been spared), reorganizations, and a tightening of budgets not just once but several
 24 times. Sadly, Sprint's experience is not unique. Under these circumstances, it is
 25 difficult, if not impossible, for me to explain to higher management that postal rates need

² Participants interested in First-Class Mail issues, including the OCA, took a lead role in forging a settlement agreement with the USPS. I believe the efforts of these parties to achieve a reasonable settlement of First-Class Mail issues in a timely manner paved the way for the USPS and other mailer interests to reach settlement. First-Class is by far the major contributor to USPS institutional costs. Therefore, no settlement could be achieved without our collective input. I participated actively on behalf of MMA in the settlement discussions on First-Class Mail issues and can attest to how difficult that agreement was. I was dismayed to learn that the APWU, which never joined in our negotiations, has centered its opposition to the S&A on the First-Class workshare discounts.

1 to be increased yet again³ to spare the USPS from the devastating effects of 9/11 and
2 the anthrax incidents.

3 APWU's "solution" is to give the USPS a substantial financial booster shot, up to
4 an extra \$2.5 billion according to MMA witness Bentley, by roughly doubling the rate
5 increase to First-Class workshare mailers. Requiring workshare mailers to bear the full
6 burden of what the APWU views as the USPS revenue shortfall is unfair on its face,
7 especially in view of the fact that First-Class workshare mail already makes **by far** the
8 largest contribution to recovery of institutional costs. It is doubly unfair because the
9 APWU has not bothered to demonstrate that the USPS needs such a massive revenue
10 infusion and the USPS has not claimed that it needs these additional revenues.

11 MMA is even more concerned about the long term implications, for the USPS
12 and **all** users of the postal system, of APWU's proposal to destroy the mutually
13 beneficial, cooperative relationship which the USPS and large workshare mailers have
14 created and nurtured for the past quarter century. APWU witness Riley has made some
15 ill-considered and unfounded claims about how major workshare mailers such as Sprint
16 would react to implementation of his discount proposals. Mr. Riley has suggested that
17 slashing workshare discounts will have little or no impact on workshare mailers'
18 behavior and the extent to which they remain willing to comply with complex postal
19 regulations and requirements governing design, preparation, and presentation of their
20 mail. I also understand that, when he testified orally, Mr. Riley ventured a "guess . .
21 .that if you brought in the CEOs of the top 30 mailers, at least 25 of them would be
22 happy to accept the proposal that I have offered." Tr 12/4943.

23 Mr. Riley is wrong on all counts. Sprint's upper management carefully monitors
24 developments within Sprint Mailing Services. The availability of meaningful workshare
25 discounts and relatively stable postal rates gave Sprint the incentive to invest hundreds
26 of millions of dollars to construct and optimize the operations at its three Mailing
27 Services facilities. In return for making such substantial investments, Sprint's
28 management is looking for stable postal costs and adequate recognition in workshare

³ First-Class workshare mailers already experienced substantial increases in postal costs due to the rates that the Commission approved in R2000-1. Those increases were compounded by the additional postal rate increases, and discount reductions, imposed by the USPS Board Of Governors in July 2001.

1 discounts of the time, effort, and expense that Sprint incurs to comply with very
2 complicated and stringent USPS requirements. As mentioned, upper management is
3 already concerned about the recent, rapid increases in postal costs. As I will discuss in
4 the next section, management is also concerned that, in recent times, the USPS is
5 demanding more and more work from very large mailers like Sprint without sharing the
6 financial benefits the USPS receives from mailers' additional efforts through a
7 commensurate increase in the discounts.

8 The First-Class workshare rates that APWU witness Riley has proposed will not
9 provide the rate stability that Sprint and other large workshare mailers need. In fact, it is
10 just the opposite. APWU is proposing to significantly roll back the discounts. Mr. Riley's
11 speculation that CEOs of 25 out of the top 30 mailers would happily sign on to APWU's
12 "offer" is just that – speculation. I can testify with certainty that no one from Sprint ever
13 told him that slashing workshare discounts was acceptable. I have also canvassed
14 other MMA members and no one recalls having any such discussion with Mr. Riley or
15 any other USPS representative. MMA members are among the largest First-Class
16 workshare mailers in the country.

17 If discounts are reduced drastically, as APWU proposes, Sprint's management
18 will be asking me the "why" questions. Why should Sprint Mailing Services and other
19 First-Class workshare companies bear the brunt of these unfortunate incidents? If we
20 cannot have *meaningful* discounts for First-Class automated mail in this settlement **and**
21 be able to look forward to compensatory worksharing discounts in rate cases to follow,
22 Sprint's management will simply say, "Why did we spend millions upon millions of
23 dollars to put the company in a position where we are financially vulnerable to the
24 whims of the USPS?"

25 I know that Sprint's management will be looking for alternative methods of
26 delivering bills to its customers and receiving payments from them. Faced with a
27 situation where workshare discounts are being reduced, rather than being increased as
28 Sprint strongly believes they should be, Sprint likely will seek to remove a significant
29 portion of its mail from the postal system as soon as possible.⁴ I am aware that Sprint is

⁴ Obviously Sprint could not abandon the postal system overnight. However, that fact provides no support for APWU's proposal that the USPS extract extra revenues from workshare mailers just because it can do so in the short term.

1 already offering as an option to some of its customers substantial financial incentives to
2 pay their bills online via the Internet.

3 The USPS knows, and the Commission should as well, that for each customer
4 who chooses to pay his bills online, the Postal Service loses 24 prebarcoded, low-cost
5 letters per year. Such letters are very profitable for the USPS to handle. Once they
6 leave the postal system, the likelihood that they will return is nil.

7 8 **II. The USPS Already Fails To Give Adequate Recognition To Sprint's Workshare** 9 **Efforts**

10 Sprint Mailing Services spends large amounts of money for automated mail
11 processing that have not been considered for worksharing discounts. The following are
12 cases in point:

13
14 A. **Move/Update.** Sprint was among the first, if not the first, large First-Class
15 mailer to automate the move/update process. Sprint invested approximately
16 \$60,000 in hardware and software in a Forward Trak system, a Pitney Bowes
17 product, to meet move/update regulations. Sprint also had to pay for almost
18 5,000 hours of programming at a cost of over \$400,000 and spent over a year
19 and a half just to get the system working correctly. On top of that the USPS
20 charged an annual \$10,000 fee for the first three years for the "privilege" of
21 doing this.⁵ Compliance with the mandatory move/update requirements
22 entailed not only a large initial investment by Sprint but also ongoing costs
23 due to changes and the need to incorporate weekly updates that we receive
24 from the USPS. In the spirit of partnering with the USPS, Sprint has
25 absorbed this cost. At the same time, Sprint feels there should be some
26 tangible consideration for the investment and expenses incurred; but so far, it

⁵ After long hours of discussion and negotiation, last year the USPS reduced that annual fee to \$5,000.

1 is my understanding that workshare mailers receive no recognition of this very
 2 expensive program in the determination of workshare cost savings.⁶

- 3 B. **PostalOne!** – The USPS claims that PostalOne! is a program that the post
 4 office needs for their infrastructure to be successful now and in the coming
 5 years. Sprint was one of the first mailing industry organizations to beta test
 6 PostalOne!. We weigh, scan and apply a routing and destination tag to
 7 approximately 3,300 trays each day. The trays are sorted to different pallets
 8 based upon destination criteria provided by the USPS. And then the pallets
 9 are sorted into trucks. According to the USPS, this expedites and saves re-
 10 handling of their mail at their local facility, which in turn cuts costs, **including**
 11 **transportation costs**, for the USPS and *potentially* shortens delivery time.⁷
 12 Sprint Mailing Services has dedicated approximately 200 square feet of
 13 precious floor space in its already strained space at the Kansas City mailing
 14 facility to the PostalOne! Program for sorting and palletizing the mail. Sprint
 15 also has added new employees, at cost of approximately \$125,000 annually,
 16 just to participate in this beta test phase of the program in its Kansas City
 17 facility, one of its three locations. This is only for Phase One. Again, in the
 18 true spirit of partnership, Sprint is investing time and money to accommodate
 19 the USPS, for which the Postal Service seems to give up nothing.
- 20 C. Sprint Mailing Services sorts, bands, palletizes, shrink-wraps its mail and
 21 loads mail trucks at the USPS' request. These are jobs that USPS personnel
 22 would normally do if Sprint's mail were delivered to USPS facilities. Having
 23 Sprint employees perform these tasks saves the USPS direct and indirect
 24 labor, material, and equipment costs. Moreover, being able to dispatch whole
 25 trailer truck loads of fully prepared and routed mail directly to airports and/or
 26 centralized processing plants saves the USPS substantial amounts of
 27 transportation costs. MMA witness Bentley informs me that **none** of the

⁶ I understand that in the last case, MMA member Sharon Harrison testified that many MMA members had to use inaccurate USPS addresses even though they had more recent, reliable addresses available to them. Tr 26/12227,12230-32 (Docket No. R2000-1).

⁷ In connection with many of the new programs and requirements that it institutes, the USPS touts faster delivery of the mail as a real benefit for workshare mailers like Sprint. Nevertheless, Sprint and

1 transportation cost savings that result from having mailers perform these
2 activities are reflected or even considered in the derivation of First-Class
3 workshare cost savings.

4 D. Whittier Taggers – In 1996 Sprint made the decision to partner with Whittier
5 Tagging Products. We found that maintaining current tray tags issued by the
6 USPS wasn't working. The Whittier tagging system provides a faster way of
7 updating tray tags. Sprint Mailing Services has spent \$44,500 to purchase
8 Whittier taggers and spends an additional \$6,000 annually to license and
9 maintain the taggers for all three mailing centers. The taggers produce only
10 the labels needed for each mailing with the correct zipcode and sortation
11 information to expedite handling of mail by the USPS. This is an example of
12 a function that private industry performs more effectively than the USPS can.
13 If large mailers like Sprint want to maximize the efficient flow of their
14 mailpieces into the USPS system, they effectively have no choice but to incur
15 additional expenses to replicate what the USPS should be able to provide.
16 Again, mailers like Sprint get no credit for the cost savings realized by the
17 USPS.

18 E. Sprint has invested in state-of-the-art inserters with a value of approximately
19 \$36 million, with another \$21 million in state-of-the-art laser printers. All of
20 this money has been spent with the idea of being a partner with the USPS in
21 keeping rates as low as possible. Investments of this magnitude indicate the
22 level of financial commitment that large mailers make to the workshare
23 program. Major mailers such as Sprint will not continue to invest in such
24 expensive new equipment and technology if there is an expectation that they
25 may not be able to recoup their capital investments, much less enjoy some
26 return on those investments. Today, mailing is an important part but not the
27 core part of Sprint's business. If ill-conceived policies like those espoused by
28 APWU force Sprint to leave the postal system and find other means of
29 sending bills and receiving payments, then there would be no longer a need

other MMA members have noted that the USPS has real problems meeting its own existing delivery standards.

1 for Sprint to purchase ancillary equipment such as these printers, inserters,
2 and mail sorters.

3 F. **Mailpiece Design** -- Each year, Sprint expends considerable time and
4 money in training its employees on postal rules and regulations governing the
5 design and production of qualifying mailpieces. This task is complicated by
6 the fact that the USPS requirements are constantly changing. We have a
7 training program for all new employees to explain the **basic** information that
8 the USPS requires before it will accept and process First-Class automated
9 mail. This training is done at all three sites. The necessary ongoing training
10 for me to stay abreast of the all the rules and regulations and participating in
11 USPS work groups is also a significant added expense to Sprint. From my
12 perspective as a manager of Sprint's mailing operations, maintaining the
13 proper address formatting and envelope design capability is extremely time
14 consuming in as large a mailing operation as this. MMA witness Bentley's
15 testimony discusses the industry following that the Postal Service has created
16 by regulating the mailpiece design requirements so closely.

17 18 **III. CONCLUSION**

19 Over the years Sprint has enjoyed a mutually beneficial relationship with the
20 Postal Service. We have proven time after time that we are willing to work with the
21 USPS on new ideas and projects. This has been proven not only in attitude but also in
22 actual dollars spent to support postal programs. We understand the position that the
23 USPS is in and will support the S&A and legitimate postal reform legislation. We want
24 to see the USPS make it through these hard times and come out stronger than before.
25 For this to happen we need to continue to work together.

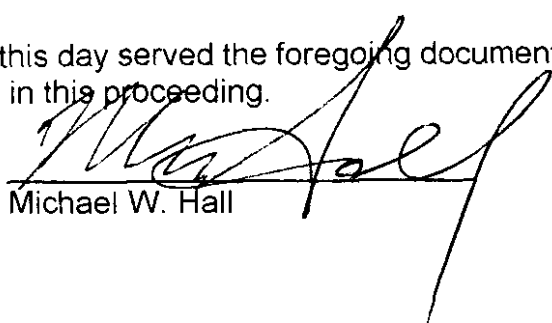
26 If the USPS should, for any reason, significantly reduce discounts for First-Class
27 workshare mail, it could put the USPS into a virtual death spiral. Such a move would
28 inevitably result in the First-Class mailing industry being forced to seek alternative
29 means of communicating with their customers and to eliminate delivery of hard-copy
30 through the postal system. Resorting to such alternatives, which Sprint's upper
31 management already is experimenting with, will take some time to implement.

1 Nevertheless, the resulting loss of Automated First Class letters, with their large
2 contribution to the Postal Service's institutional costs, would be devastating not only to
3 the Postal Service but its workforce as well. For the USPS to turn its back on
4 worksharing discounts at this time would send a message to the managers of all
5 companies involved in First-Class mail that the spirit of partnership in which they
6 entered a relationship with the USPS was for naught.

7 For these reasons, I recommend that the Commission accept the S&A and reject
8 APWU's proposal reduce First-Class workshare discounts.

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

1 CHAIRMAN OMAS: This now brings us to oral cross-
2 examination. One party has requested oral cross-
3 examination, the American Postal Workers Union, AFL-CIO.

4 Ms. Catler?

5 MS. CATLER: And Mr. Chairman, I presume that
6 again if the motion to strike the portions of this testimony
7 is granted that --

8 CHAIRMAN OMAS: Yes.

9 MS. CATLER: Okay, thank you very much.

10 CHAIRMAN OMAS: I'm sorry. I didn't mean to
11 interrupt you. I didn't give you a chance to finish. But
12 yes, it holds true with all the witnesses.

13 MS. CATLER: Okay.

14 CROSS-EXAMINATION

15 BY MS. CATLER:

16 Q Good afternoon, Mr. Crider.

17 A Good afternoon.

18 Q Mr. Crider, what is the corporate relationship
19 between Sprint Mailing Services and Sprint?

20 A Sprint Mailing Services is a division under the
21 umbrella of Sprint and we are responsible for mailing the
22 invoices out for all of our departments. We also mail out
23 paychecks, accounts payable, we process W-2 forms, et
24 cetera.

25 Q Just so I'm not off-base here, Sprint is a

1 communications or telephone company?

2 A Yes, ma'am, telecommunications.

3 Q Is it part of a larger company or is that, is
4 Sprint the parent company?

5 A Sprint is the parent company.

6 Q And Sprint Mailing Services is a division that
7 handles all the mailing for Sprint throughout the country?

8 A No, it does not handle all of the mail.

9 Q What portion of the mailing does it handle?

10 A We do almost everything except marketing.
11 Different, there's different marketing organizations
12 throughout the United States and we have not yet had the
13 space or the equipment to do the marketing part of the
14 mailing, but almost everything else as far as anything
15 major, we do the rest of it.

16 Q What about when individual corporate executives
17 write letters? Does that go through your system?

18 A If it is going to the whole company and they want
19 to mail out a letter like an HR or if Mr. Ezri has something
20 to say we have printed letters and mailed those out, yes,
21 ma'am.

22 Q but individual letters, single piece letters that
23 are addressed from one person in your company to somebody
24 outside do not go through your system?

25 A No, ma'am. They sure don't.

1 Q So this is really how they mail large groups of --

2 A We strictly deal with large volumes, yes, ma'am.

3 Q Okay. What about those single piece letters? Do
4 they get pre-sorted, pre-bar coded anywhere?

5 A I would say most of those letters, and this is not
6 in my department, but most of those letters are gathered up
7 throughout the different buildings in Kansas City and are
8 taken to the campus and there the post office picks them up.
9 I do not believe they go to any pre-sort bureau whatsoever.
10 Most of them, I would say the largest part of them are all
11 full rate mail.

12 Q What do you mean by campus?

13 A Sprint has their world and also their corporate
14 headquarters in Kansas City. It's a huge, sits on almost a
15 section of land, of buildings. We also have about a total
16 of almost 50 other buildings throughout Kansas City that
17 generate mail. Single piece mail.

18 Q Then you have big facilities at least in two other
19 places?

20 A Yes, we do, ma'am.

21 Q Where are they?

22 A One is in Apopka, Florida and one is in Rancho
23 Cordova, California which is a suburb of Sacramento. Apopka
24 is kind of a suburb of Orlando.

25 Q Okay.

1 And I understand you have Sprint Mailing Services
2 facilities in those places. Are there also other Sprint
3 facilities in Apopka, Florida or Rancho Cordova, California?

4 A Yes, ma'am. There is -- you mean other Sprint
5 buildings?

6 Q Yes.

7 A Definitely yes, ma'am.

8 Q Are there Sprint buildings in other places in the
9 United States where you don't have facilities for Sprint
10 Mailing Services?

11 A Many, many of them. Yes, ma'am.

12 Q Does Sprint Mailing Services do any mailings for
13 anyone other than Sprint?

14 A In our Rancho Cordoba operation for year we have
15 done the Golden One credit union, invoices or statements for
16 them. And we are continuing until our contract runs out. I
17 believe we've got another year and a half to two years on
18 that contract. But that's it. That's the only one we do.

19 Q Is the Golden One credit union in any way related
20 to Sprint or its employees?

21 A No, ma'am.

22 Q So is Sprint Mailing Services a pre-sort bureau?

23 A No, ma'am.

24 Q What would you call it?

25 A All of our mail is in-house prepared. One hundred

1 percent.

2 Q So this is an in-house operation.

3 A Yes, ma'am.

4 Q And it is a wholly owned division of Sprint. It's
5 not a separate company is it?

6 A No it's not, it's part of Sprint.

7 Q So for people who have Sprint as their telephone
8 service, are their Sprint bills mailed by Spring Mailing
9 Services?

10 A Yes, ma'am.

11 Q In your testimony at page one at lines 9 through
12 10, you state that Sprint Mailing Services is responsible
13 for mailing invoices, payroll checks, accounts payable
14 checks, W-2s, 1099's and other customer mailings for Sprint.

15 What is my Sprint phone bill? Is that an invoice?

16 A That would be an invoice, yes ma'am.

17 Q All right.

18 And can you give me an example of what an accounts
19 payable check is?

20 A If we buy a new inserter operator or whatever
21 vendor would need a check, that would be accounts payable.

22 Q Okay. And can you describe what other customer
23 mailings are included in the ones that you've mailed for
24 Sprint?

25 A Yes, we have the local telephone division, we have

1 a long distance telephone division, we have the SPAA which
2 is Sprint Publishing and Advertising. Then we also have
3 Sprint PCS. That's the major ones.

4 Q Are you talking about mailings other than the
5 bill. The bill is the invoice.

6 A Yeah, but this is all the ones we do the invoices
7 for.

8 Q I see. But you've got invoices here and you've
9 also got something called other customer mailings for
10 Sprint. I'm trying to figure out what other customer
11 mailings are.

12 A If one of the divisions would want to send out, if
13 we missed an insert or if there was an FCC ruling or
14 something that we needed to get out to all the customers in
15 a particular state we would prepare that and send it out.

16 Q Does Sprint Mailing Services do the printing as
17 well as the mailing of these things that you're sending out?

18 A Yes, ma'am. We create the bill from birth all the
19 way to the back door.

20 Q Do you know what efforts Sprint is now making to
21 avoid the use of the United States mail for sending of
22 invoices?

23 A I guess you could classify it as an effort. The
24 last several months we, along with other telecommunication
25 companies, have been offering customers a discount if they

1 would let us bill them on-line and pay on-line.

2 Q Really?

3 A Yes, ma'am.

4 Q And how have you been informing your customers of
5 their opportunity to have a discount if they take their
6 bills and pay on-line?

7 A Most of it is done -- This is kind of out of my
8 realm, but from what I see on the bill itself, most of it is
9 done through the bill, on the bill itself. Whether it's a
10 long distance bill, or local, or PCS or something. It's
11 usually some type of printing on that or in the insert
12 that's in the envelope.

13 Q Is the billing that's done on-line, the invoicing
14 that's being done on-line, is that done through Sprint
15 Mailing Services or through a different division of Sprint?

16 A No, ma'am. It's a completely different operation
17 and I have very little knowledge of that.

18 Q What efforts is Sprint now making -- Are there any
19 other efforts that you're aware of that Sprint is now making
20 to avoid the use of the United States mails for sending
21 invoices?

22 A I don't think we're trying to avoid sending it
23 through the mail, but there's no other that I'm aware of
24 other than what we've talked about. There could be
25 definitely some -- Sprint is a very large corporation and I

1 definitely don't know all their marketing or their
2 advertisement programs.

3 Q What about efforts that Sprint is now making to
4 avoid the use of the United States mail for the sending of
5 payroll checks? Are you aware of any efforts they're
6 making?

7 A Well, we have always from day one that I've been
8 involved with it, we have always wanted the people to have
9 their checks directly deposited. There's always been a
10 movement requesting that to be done, with very little
11 success, I might add.

12 Q How are they distributed? People walk around and
13 hand out the checks in Kansas City?

14 A No. If they're local we do it by mail stop within
15 the company.

16 Q What is a mail stop within the company?

17 A A mail stop -- Pardon?

18 Q What is a mail stop within the company?

19 A A mail stop is an identification number and letter
20 that identifies the building the person works in and also
21 identifies all the way down to the cube where they're
22 working at. So we inter-office those to the management team
23 and then the rest of them are all sent USPS mail.
24 Throughout the United States.

25 Q Are all the payroll checks generated in Kansas

1 City for the whole country?

2 A Yes, ma'am. Even the executives. We do them all
3 there.

4 Q So the only ones who get it handed to them by
5 their managers are in Kansas City. Everyone else gets it in
6 the mail, or by direct deposit.

7 A To my knowledge, yes.

8 Q You put them in the mail, right?

9 A Well, yes ma'am, we do, but there's -- Payroll can
10 always request us to hold a check or they come and pull the
11 check. That's why I say to my knowledge.

12 Q I see what you're saying.

13 What about accounts payable checks? What efforts
14 is Sprint now making to avoid the use of the United States
15 mail for sending accounts payable checks?

16 A None to my knowledge.

17 Q What about, what efforts is Sprint now making to
18 avoid the use of the U.S. mails for sending W-2s?

19 A To my knowledge there's only been talk about
20 trying to get them on-line, but we've never been able to do
21 that successfully, so there's none, really.

22 Q And similarly, what efforts is Sprint now making
23 to avoid the use of the U.S. mails for sending 1099s?

24 A Again, to my knowledge there's none that we've
25 been successful at.

1 Q What about those other customer mailings? What
2 effort is Sprint now making to avoid the use of the U.S.
3 mails for sending other customer mailings?

4 A The only thing that I'm aware of is some marketing
5 idea going through the media, TV, and on-line through the
6 web.

7 Q Let me ask you a little bit more about the efforts
8 to avoid the U.S. mail for sending invoices or phone bills.

9 You say there's currently a program to provide
10 discounts if you accept your bill and pay the bill on-line?

11 A Yes, ma'am.

12 Q Do you know how much those discounts are?

13 A I believe they range anywhere from \$2 up to --
14 Well, I'm just aware of \$2. I've been told that there's a
15 little more incentive but I've never seen it in writing.

16 Q Two dollars a month?

17 A Yes, ma'am. Two dollars a month.

18 Q How much does it cost you to send and receive a
19 Sprint bill each month?

20 A Total cost invoice, without postage, I think
21 that's proprietary information, ma'am. I don't know if I
22 should -- I don't know if I should be allowed to state our
23 financial situation there.

24 MR. HALL: Can we have the question read again.

25 CHAIRMAN OMAS: Would you repeat the question?

1 (Question replayed)

2 MR. HALL: I'm going to agree with my witness.

3 These are very often sensitive operating details of
4 corporations and as I believe anyone knows, the
5 communications business these days is extremely competitive
6 and people try to keep the sources of their operating cost
7 information confidential whenever they can.

8 CHAIRMAN OMAS: I'll agree with the witness. Move
9 forward, please.

10 MS. CATLER: Mr. Chairman, before we get off of
11 this issue, he's talking about if the postage rate increases
12 a penny or two that they're going to abandon mailing things
13 through the United States Postal Service. Meanwhile he's
14 said they're paying people \$2 a month to not go and incur
15 the cost of preparing a bill and sending it back.

16 I think he's kind of put this in the record, in
17 play by going and saying that a penny or two more in
18 postage is going to tip them over the edge.

19 CHAIRMAN OMAS: I think I'll stand with my
20 first --

21 MS. CATLER: All right. I'm going to keep on
22 asking questions slightly related to this because I am
23 interested in the cost aspect of this because he has said --

24 CHAIRMAN OMAS: I think you can argue that in
25 brief.

1 MS. CATLER: I understand, but I still need to
2 have an idea of what costs we're talking about. Two dollars
3 a month to not have to send or receive a bill it seems is
4 pretty steep to me when the postage we're talking about --

5 BY MS. CATLER:

6 Q What is the average postage that Sprint pays to
7 mail a phone bill?

8 A I would say the average is .269.

9 Q Because your average phone bill is one ounce or
10 less?

11 A No, that's just about the average of what it all
12 breaks down, because we have so many different categories we
13 mail in. It usually runs around .269.

14 Q Okay. Does Sprint Mailing Services have anything
15 to do with the receipt of paid bills?

16 A You mean the remittance that we receive?

17 Q Remittance.

18 A No, ma'am. That's in another department.

19 Q All right.

20 Are you familiar with a product called My Sprint
21 Account Manager?

22 A I've heard of it but I'm not familiar with it.

23 Q What do you know about it?

24 A I believe it's something you can go on-line and
25 pay your phone bill or your PCS or pay all of them all at

1 once or something like that. That's what I think it is.

2 Q And to your knowledge is this a way that Sprint is
3 trying to avoid the use of the U.S. mails for sending its
4 invoices?

5 A It's a marketing tool to get them to pay on line,
6 yes, ma'am.

7 Q Has Sprint through either its discount program or
8 through its on-line My Sprint Account Manager been
9 successful in encouraging its customers to take their
10 invoices on-line?

11 A I don't have those figures. I really don't know.

12 Q Have you been mailing proportionally fewer bills
13 or invoices for Sprint as a result of these programs?

14 A I can't speak about the results of this program,
15 but I can tell you we are mailing more bills.

16 Q Are you familiar with any statistics that cover
17 the proportion of Sprint customers who receive their bills
18 on-line or pay their bills on-line versus the ones who get
19 them through the mail?

20 A No, ma'am. I do not know the specifics of that,
21 no.

22 Q Are you aware of any additional effort to avoid
23 the U.S. mails that Sprint could make?

24 A The only other effort that I'm aware of that I'm
25 involved in would be to our larger customers. We are

1 starting to put them on CD ROM. Where different large
2 corporations, where you used to send out boxes of mail, now
3 we send out CD ROMs. That's the only one that I'm aware of.

4 Q So you're saying instead of sending them their
5 phone bill which could be a huge box --

6 A We sent as many as 52 boxes of mail out to them
7 and we reduced that to like one or two CDs.

8 Q Wow. That saves you a lot of postage.

9 A Uh huh. Also paper and toner and everything else.

10 Q Okay.

11 Has that program affected the total volumes of
12 mailings that you have of invoices for Sprint?

13 A In an overall case I'd have to honestly say no,
14 not really. It has to what we call our major accounts, but
15 to our base, like our invoices to small businesses and to
16 individuals, no, ma'am. It has not.

17 Q Turning to page three of your testimony, lines 12
18 through 14. I'm referring to the APWU's proposal to destroy
19 the mutually beneficial cooperative relationship which the
20 USPS and large work share mailers have created and nurtured
21 for the past quarter century.

22 Which proposal are you talking about where the
23 APWU proposed to destroy this relationship?

24 A In our opinion the rate structure that you submit,
25 or whoever submitted it --

1 Q I did.

2 A Okay. We thought was very much against what we
3 had been working for.

4 Q So you're saying it's the APWU's rate proposals
5 you believe if adopted would destroy the mutually beneficial
6 cooperative relationship which the USPS and large work share
7 mailers have created and nurtured for the past quarter
8 century. Is that correct?

9 A Yes, ma'am.

10 Q Could you explain to me if it is a mutually
11 beneficial cooperative relationship with the Postal Service,
12 can you explain to me the features of this relationship that
13 are mutually beneficial?

14 A It goes back and ties into work sharing and
15 discounts that we feel is fair for all the work sharing that
16 we do, and the agreements that we have with the post office,
17 whether it be verbal or in writing to venture out in new
18 ideas and new testings that they would like to try to get
19 off the ground and go. With the idea of us maintaining a
20 state of the art, high quality program that our mail is
21 beyond reproach, where we don't have any problems with it
22 whatsoever to speak of on a normal basis. The idea of
23 working together as a team. The idea of if you give me the
24 best mail you can we'll give you discounts that are fair.

25 This has been something that we've nurtured and

1 talked about for all the years that I've been involved in
2 it, and it's -- We can't always say we've won but it's
3 always been a program that we've worked with the post office
4 and they've worked with us. Whether we agree to disagree,
5 we always want to keep that ethical status between us, that
6 we'll work together in these fields.

7 Q And are the same things you've just talked about
8 as mutually beneficial, also part of your definition of the
9 cooperative relationship which the USPS and large work share
10 mailers have created and nurtured for the past quarter
11 century?

12 A Yes, ma'am.

13 Q Are you aware that the Postal Rate Commission's
14 general goal of promoting economic efficiency by setting a
15 discount equal to avoided costs?

16 A I may not have the best knowledge, but I think I
17 understand it, yes, ma'am.

18 Q Do you understand that to mean the costs of the
19 Postal Service that are avoided by the work share mailers?

20 A Yes, ma'am.

21 Q You state at the bottom of page three, lines 23
22 through 27 that Sprint's upper management carefully monitors
23 developments within Sprint Mailing Services. What aspects
24 of Sprint Mailing Services developments does upper
25 management monitor?

1 A Our postage spending, our investment in equipment,
2 our labor costs, all of our costs that we incur. Mainly
3 because we're not a core business of Sprint. And they watch
4 us very closely. I have to report to them every week, every
5 Tuesday in fact, where we're at and what we're doing and why
6 we're doing it. And if we're not on record or not where
7 we're supposed to be I have to explain that, so they do keep
8 very close tabs on what we do.

9 Q Do they keep tabs on how quickly the mail gets
10 delivered?

11 A Through my presentations, yes they would.

12 Q I suspect a lot of these efforts that you take to
13 prepare your mail in a way that is compatible with the
14 Postal Service's automation goes, has the effect of speeding
15 your mail through the system, isn't that right?

16 A That is one of the main goals. Now whether we've
17 reached that or not I don't know. But that is the post
18 office's main goal and our main goal. Is that we try to
19 produce the bill at the lowest cost possible and get it
20 there the fastest way with the least cost. That should be a
21 partnership between both of us for a goal.

22 Q And while they're monitoring the speed of delivery
23 are they also monitoring the speed of response?

24 A I know we are monitoring the speed of delivery.
25 The remittance centers, they are trying to, but we are

1 working with a program to introduce to our remittance
2 centers a confirm program possibly that could help them do
3 that. But they're not really doing that as well as we are
4 right now as far as the outgoing mail is concerned.

5 Q How do you monitor the speed of delivery? You put
6 it in the mail and it comes to me in Washington. How do you
7 know how long it took to get there?

8 A We feed the mail. We basically, we'll put mail in
9 a particular area that's going somewhere and we mail it to
10 our own people, to our own offices, to designated people.
11 That's how we track our mail.

12 Q And you do that every day?

13 A No, ma'am. We don't do that every day. We might
14 do it every other week. We try to do it every other week.
15 There's times I've failed, but it's pretty close to every
16 other week. And we don't do it at the same location. We
17 may do it one part of the country. If we're finding we're
18 having a situation in a particular zip code area, then we'll
19 seed the mail there also.

20 Q Does Sprint monitor customer service calls that
21 say I just got my bill and it's due tomorrow, what's going
22 on?

23 A We get those calls.

24 Q Do those get referred to you to try to solve?

25 A Sooner or later they get to my desk and I'm held

1 responsible for why the bill was late. Or if it was late.
2 There's times we find the customer is not always, you know,
3 on the up and up with us.

4 Q To your knowledge does Sprint go and see how
5 quickly they get paid for invoices that are delivered over
6 the internet?

7 A I have no idea, ma'am.

8 MR. HALL: I was going to say, this is beyond the
9 scope of his testimony. He's already indicated he doesn't
10 have knowledge there.

11 MS. CATLER: I asked if to his knowledge he knew
12 that. For all I know on Tuesday mornings they all go there
13 and make their reports about how well they're doing, and
14 maybe the internet guy got there and said you know, what
15 we're discovering is that people go and program this to pay
16 it on the last possible day every time. And maybe the folks
17 who mail bills come in earlier. That's the question I was
18 asking. If Mr. Crider was familiar with any of that, I
19 would hope that he would answer it.

20 THE WITNESS: If I was I'd tell you, but I
21 honestly don't know, ma'am.

22 MS. CATLER: Thank you, sir.

23 BY MS. CATLER:

24 Q Other than seeding the mail is there any other way
25 that you monitor the speed of delivery?

1 A Another way is by customer response.

2 Q Could you explain that?

3 A If we have trouble areas we get phone calls,
4 because a lot of retirees, that's one thing they go to is
5 that mail box every day. They expect that mail to be there.

6 Q And they know which day their Sprint bill should
7 be there.

8 A That's right. And they also know when their
9 retirement check is supposed to be there.

10 (Laughter)

11 Q That's a different story.

12 A Believe me, I really catch it when those checks
13 aren't there. But that's another way --

14 Q Oh, you're talking about your Sprint retirees.

15 A Yes.

16 (Laughter)

17 Q Okay.

18 A And there is a program that we're looking at that
19 I mentioned earlier that we're looking at and we're starting
20 to look more serious at it which is a postal program called
21 Confirm, where we'd add a planet code. But we're not doing
22 that at the particular time.

23 Now we have done it through our local post office
24 just to track mail to see we've got some trouble spots.
25 They've been nice enough to use their planet codes for

1 testing for us, and we have used that a few times.

2 Q Thank you.

3 On page four of your testimony you talk about the
4 why question. This is down at lines 17 through 24. I asked
5 you earlier if you were familiar with the Postal Rate
6 Commission's goal of setting discounted rates to be equal to
7 the costs of the Postal Service that are avoided by the work
8 sharing activity that is the reason for the discount and you
9 said that you were generally aware of that.

10 A Yes, ma'am.

11 Q So you realize, of course, that it's not based on
12 the costs you spend to go and comply with the work sharing
13 requirements, but the costs that the Postal Services saves,
14 correct?

15 A But there is a correlation or a tie-in there.

16 Q Oh?

17 A If we didn't spend the money for the right
18 equipment to be able to do what we need to do to be able to
19 save the post office money for them not to have to invest
20 that type of money, well we're meeting what rules we need to
21 meet to get our mail through, at the same time we're saving
22 the post office from having to invest that kind of money
23 also.

24 So it's a win/win situation.

25 Q But aren't the rates set in such a way that if --

1 I'm sure there are lots of people who want to sell you some
2 really fancy machinery.

3 A Sure.

4 Q That would be real expensive. And it's just not
5 worth it because you're not going to be able to save enough
6 to justify buying that equipment, right?

7 A We evaluate all, everything that we purchase, in
8 the long run what's the payback and the pay out and
9 whatever.

10 Q Right. and so there are some things that it's
11 more efficient for the Postal Service to do them, to buy the
12 equipment, because they're doing it for everybody and you're
13 just doing it for Sprint's communications.

14 MR. HALL: Is that a question?

15 THE WITNESS: I wouldn't say that.

16 MS. CATLER: Yeah, it is.

17 THE WITNESS: I wouldn't say that. What are you
18 asking me?

19 BY MS. CATLER:

20 Q There are -- I'm asking you whether when you're
21 evaluating possible purchases of equipment whether you,
22 there are times that because of, whether it's economies of
23 scale, that you're just not going to use it enough to, and
24 save enough by using it, to justify the purchase of that
25 equipment, isn't that right?

1 A Well there is equipment out there that you could
2 go overboard, yes. But we at the same time analyze all that
3 and it goes through several committees before we purchase a
4 thing, whatever piece of equipment it is, and we have to do
5 business cases on top of business cases and justification
6 and justification. And we also tie in there what we think
7 or what we hope the next rate case would benefit us. and I
8 don't know what company that I know of, the large mailers in
9 first class, we all work on that assumption that we will be
10 able to get some type of a discount out of the next rate
11 case other than what they propose.

12 Q Excuse me. You all think that you're going to get
13 more in discounts than what the Postal Service will propose?

14 A We -- Yes. We would like to, let me put it that
15 way.

16 (Laughter)

17 Q Okay. That's nice.

18 A We don't always do it, but --

19 Q No, I guess not.

20 When you're talking about here on page four in the
21 why questions, the people who are asking this, Sprint
22 management, do they understand that the Postal Service, the
23 costs avoided by the Postal Service is what forms the basis
24 for discounted rates?

25 A On a very high level basis possibly, but not to a

1 real working knowledge. They go strictly by dollars and
2 bottom line.

3 Q So they don't understand that as the Postal
4 Service has gotten more efficient and stopped, for example,
5 manually sorting the mail and mechanically sorting the mail
6 and is instead using automation to sort virtually all the
7 mail, that the costs avoided by mailer work sharing has been
8 decreasing. They don't understand that.

9 MR. HALL: I think that assumes something that
10 isn't in evidence. Do you want to put a foundation question
11 in? Could we ask her to do that please?

12 MS. CATLER: Okay.

13 I was looking back at Mr. Crider's, when he
14 started doing this, and I realize that he started in 1990 so
15 that by the time that, his experience really comes in after
16 the Postal Service really had instituted these discounts and
17 has really moved away from manual sortation and the
18 mechanical sortation which formed so much of the argument in
19 the early cases about the discounts. So I really can't go
20 and talk about his experience with these things.

21 BY MS. CATLER:

22 Q You state at line 25 of page four of your
23 testimony that you know that Sprint management will be
24 looking for alternative methods of delivering its bills to
25 its customers and receiving payments from them. What do you

1 know that they will be doing?

2 A Could you ask me that again? I think there's two
3 questions there.

4 Q You say I know that Sprint's management will be
5 looking for alternative methods of delivering bills to its
6 customers and receiving payments from them.

7 How do you know that Sprint's management will be
8 looking for alternative methods of delivering bills to its
9 customers and receiving payments from them?

10 A We have discussed it in several different
11 managers' meetings. We're always looking at process
12 improvement, best in class, et cetera, and how to cut costs.

13 Q At the top of page five, lines 1 through 2 when
14 you talk about how Sprint is already offering as an option
15 to some of its customers substantial financial incentives to
16 pay their bills on-line via the internet.

17 Is that the \$2 a month off the bills that you were
18 talking about?

19 A Yes, ma'am.

20 Q Is that a short term thing? For the next six
21 months we'll give you two months [sic] off your bill?

22 A I have no idea.

23 Q Excuse me. Six months we'll give you \$2 off your
24 bill, not two months off your bill.

25 You don't know?

1 A No, ma'am. I do not.

2 Q The next part of your testimony talks about things
3 that Sprint does that have not been considered for work
4 sharing discounts. To your knowledge has the Major Mailers
5 Association on whose behalf you are testifying thought that
6 any of these things should be considered for work share
7 discounts in prior cases?

8 A The answer to that is yes.

9 Q Do you know what the Commission decided about
10 those?

11 (Pause)

12 Q Well which ones do you know that they have sought
13 to --

14 A I misunderstood. You said sought to?

15 Q Yes. Put in testimony --

16 A I do not have any personal knowledge of any that
17 we have actually put in and asked for. I do not know that.

18 MR. HALL: I believe counsel could direct those
19 questions to Mr. Bentley who will be appearing next.

20 MS. CATLER: Thank you.

21 BY MS. CATLER:

22 Q The first one that you talk about here is
23 something called move update. What is the purpose of move
24 update?

25 A Move update was instigated by -- I shouldn't say

1 instigated. Instituted by the post office for mailers like
2 Sprint or any other large mailers to make sure that their
3 addresses are kept current. It's a good program.

4 We endorsed it, we thought it was the way to go.
5 It started expensive and it still is to some extent, but we
6 felt like we thought that the post office would be able to
7 cut considerable costs by using move update. I know that it
8 has helped us.

9 Q What costs of the Postal Service do you think are
10 cut by using move update?

11 A Well they won't be forwarding bills constantly.
12 They won't be getting in a loop and then handling them
13 several times would be the major costs that I would think
14 would be.

15 Q Similarly, there are advantages to you, aren't
16 there? To Spring?

17 A Yes, ma'am.

18 Q Could you tell us what those are?

19 A We want our customers to get their bill on time.
20 this is a tool that we thought would double check us and
21 help us. We feel we have one of the cleanest databases
22 there is out there and we've proven that time and time again
23 because we score in the way high 99s every time we're
24 audited. So we have a very good database, very good
25 addresses. But if something slips through the crack, and it

1 does, move update normally will catch it and we'll be able
2 to automatically, by means of their fast forward box,
3 automatically update our address that following month and
4 the customer would get the correct address on his bill.

5 Q If you don't update an address what are the
6 consequences to Sprint of that?

7 A The major consequence would be simply that the
8 bill would not get to a destination on time or not even get
9 there. There's always that possibility.

10 Q What are the consequences of the bill not getting
11 there or getting there late?

12 A A customer could get a notification in the mail
13 that he hasn't paid his bill and he could get a surcharge
14 for not paying his bill on time. Plus the fact that we
15 didn't receive that revenue back on time.

16 Q I bet that also generates a lot of customer
17 service calls, too.

18 A Yes, it would. But again I would say that we are
19 very proud of our database and we are very lucky that we
20 don't have that many.

21 Q Moving on to page six of your testimony where you
22 talk about Postal One. Could you explain to me what is
23 Postal One?

24 A Postal One is a program that the post office has
25 introduced that is going to be part of their infrastructure.

1 It has several different aspects to it. We're in phase one
2 right now which is transportation. The next phase would be
3 phase two which would be getting into the E part of it as
4 far as filing our 3600s, well, our postage statements, et
5 cetera, on line and paying on line. It would do away with a
6 lot of paperwork for us and the post office. We would also
7 get into a program where we would verify through Postal One
8 which means we wouldn't need a verification clerk at all
9 three of the sites on a full time basis.

10 But we're only in phase one, Sprint is, at this
11 time, and that's the transportation part.

12 Q I take it you have, what do they call it, a
13 detached postal unit at each of your three facilities?

14 A Yes, we do -- Well, no. At two of our facilities.
15 Our Apopka site we are getting ready to go 7x24 and we have
16 signed plant load agreements and we will be going to that
17 within the next 60 days or less. The other two we are fully
18 plant loaded and have been for years.

19 Q What is the purpose for Postal One?

20 A For the transportation part, it is to be able to
21 move mail out of our facility faster. It is also a way of
22 having dock-to-dock transfers for the post office. It's a
23 way where you have ground transportation separated and
24 tagged completely different than your air transportation.
25 All this stuff is palletized in particular situations or

1 however the post office wants you to palletize it to. They
2 don't have to handle it. All they've got to do is come pick
3 up a pallet of mail, take it to the airport, or put it on a
4 truck that's going to wherever. This saves them a
5 tremendous amount of handling the mail and also we do all
6 the work. We basically sort it to wherever they want it to
7 go.

8 Q I take it though, actually, you don't bring the
9 mail now to the postal facility -- Do you do that in
10 California?

11 A No, we used to, but we don't anymore.

12 Q In California?

13 A No, we have a plant load agreement there. They
14 come and pick up the mail at California.

15 Q Okay.

16 The third item you have on here is called, you say
17 at the bottom of page six. You say Sprint Mailing Services
18 sorts, bands, palletizes, shrink wraps its mail and loads
19 mail trucks at the USPS' request.

20 These are jobs the USPS personnel would normally
21 do if Sprint's mail were delivered to USPS facilities.

22 You produce a lot of mail --

23 A We produce a huge amount of mail.

24 Q If you had to deliver it to USPS facilities you
25 couldn't like just sort of throw it in a truck. You would

1 have to some way go and put it into containers to get it
2 from your facility to the Postal Service's facility,
3 wouldn't you?

4 A I can tell you at one time that's basically what
5 we did just to get it there on time was throw it in the
6 truck and get it to the post office. But most of the time
7 we --

8 Q You put it in bags at least, didn't you?

9 A We put it in what we call rolling stock is what we
10 used to use and delivered it that way to the post office.

11 Q You mean those rolling like bins?

12 A No, it's an APC unit that stands about six feet
13 tall. The front of it opens up and you put trays of mail in
14 it and then close it. You roll it onto the truck.

15 Q Okay.

16 But I take it that by banding, palletizing, shrink
17 wrapping, et cetera, that you can fit a whole lot more mail
18 on a truck than you could when you put it in those trays on
19 rolling stock.

20 A Now that we are doing palletizing mail and we
21 stack the pallets, yes, ma'am.

22 Q And if you were having to deliver it to the post
23 office you could have a lot fewer runs to the post office if
24 you palletized it rather than going and putting it on trays
25 and rolling stock, couldn't you?

1 A True, but the post office has requested that we do
2 palletize it and not use the AP stock.

3 Q But it's to your advantage too, isn't it?

4 A There's some cases where APs were nice. It's a
5 flip-up. We have some companies that that's all they do,
6 that's all they use. So it's really kind of, you work it
7 out with the post office.

8 Q When you say we have some companies, you're
9 talking about the major mailers?

10 A Yes, ma'am.

11 Q Moving on to -- is it Whittier?

12 A Yes, ma'am, Whittier.

13 Q Whittier taggers on page seven. Now, can you
14 explain a little bit to me what exactly the Whittier taggers
15 do or what they are for?

16 A I'll give you some background. We used to use the
17 tags that the post office supplies, and they still would.

18 Q What kind of tags are these?

19 A These are tray tags that identify where the tray
20 of mail is going. It will have information on it, whether
21 it's working mail or it's five-digit, three-digit sort,
22 whatever, and it will have the zip code destination on it
23 also.

24 Q Are these different colored tags for different
25 reasons?

1 A No, ma'am. They are white with black letters.

2 Q Okay. So they are cardboard.

3 A Yeah. I don't know the exact size. They are
4 about like that that fit into the tray, a tray tag.

5 Q Okay.

6 A But we used to use what the post office gave us,
7 but that turned into a nightmare many, many times because a
8 lot of times we couldn't get the tags we needed and/or the
9 tags were incorrect.

10 Q What do you mean by "incorrect"?

11 A Well, they had changed -- there's numerous
12 reasons. They changed a zip code, or they changed how they
13 wanted it sorted to a zip code or how you scheme sort mail
14 or whatever the case may be. There's different times that
15 they would change it, and by the time we would get the new
16 tags in we were getting trouble with our verifiers saying
17 this is an incorrect tag, and we didn't have any tags to put
18 in there. And sometimes the tags would not agree with the
19 software that we sort the mail by.

20 So to keep down the confusion and stay ahead of
21 the game, we went to an outside vendor. We looked at a lot
22 of them, and we chose Whittier. And actually what Whittier
23 does is it makes the tag as we produce the mail. As our
24 manifest comes out, it talks with our mainframe, and it will
25 produce the tag that that particular tray needs.

1 Q Okay. Now, I take it that Whittier eliminates the
2 manual preparation of labels.

3 A Definitely.

4 Q And I take it, in the past --

5 A You're talking about the post office manual. We
6 never manually made tags.

7 Q Well, what did you do when you had a tray of mail,
8 and you didn't have a tag? Did you hand write a tag?

9 A Yes. There was times I'm sure we did hand write
10 tags, but not very often. We would tell them that they will
11 take the tag that's on there because that's what the USPS
12 gave us.

13 Q Okay. But you did say a little bit earlier that
14 there were times you didn't have any tags.

15 A That's a true statement.

16 Q So then what did you do?

17 A They took it as is.

18 Q Okay.

19 A Which isn't good for either one of us.

20 Q No, no. I could see that. I take it that when
21 the decision was made to buy the Whittier tagging system,
22 that the Sprint did an analysis to determine whether there
23 would be a return on this investment to Sprint.

24 A Yes, and it was not very good. This is mostly
25 cash outlay for us because we could continue getting the

1 tags from the post office.

2 Q But if you get the tags from the post office, and
3 they are not correct, doesn't that mean that that whole tray
4 of mail might go to the wrong place?

5 A That's very possible.

6 Q That's not very good for you.

7 A That's not good for nobody.

8 Q Okay. So isn't this another one of these times
9 when you're balancing speed against cost?

10 A Accuracy against cost.

11 Q And accuracy leads to speed, doesn't it?

12 A Yes.

13 Q Now, the next one here. On page seven, starting
14 at line 18, you're talking about Sprint has invested in
15 state-of-the-art inserters. Now, forgive me, but aren't
16 inserters the things that put the stuff inside the envelope?

17 A Yes, ma'am. They insert the invoice and the
18 return and also -- anything that goes in that bill is
19 usually inserted from an inserter.

20 Q All right. What benefit is it to the Postal
21 Service that you have purchased state-of-the-art inserters?

22 A We have a very short window that the post office
23 gives us to make our mail acceptable to them. They also
24 have very stringent guidelines as far as what that envelope
25 has to look like finished once we insert an invoice in

1 there. You can buy cheap equipment, and you can get it
2 halfway done, and there is no telling what you're going to
3 have, what problems you're going to have.

4 To be able to do it the way the post office wants
5 it done right the first time, you should try to invest in
6 the best piece of equipment that will do that at the best
7 speed possible to meet the windows that we have to get our
8 mail to the post office. Our mail has to go out -- we have
9 mail dates on telephone and telecommunication bills. Each
10 state has a different -- well, a lot of states are kind of
11 the same, but different states have different rulings.

12 Q How long you have to give between the time you
13 bill them and the time the bill is due.

14 A Right. Yeah. That's right. And we are governed
15 by those windows also. So we have a certain time to produce
16 the bill, get it in the mail, and at the same time the post
17 office has given us certain windows that we have to get the
18 bills there for them to pick up. And those sometimes are
19 very, very small windows to work in with the volumes that
20 we're doing now.

21 Q Okay. On page eight of your testimony, line 26,
22 you state that if the USPS should for any reason
23 significantly reduce discounts for first-class, work share
24 mail, it could put the USPS into a virtual death spiral.
25 What do you consider a significant reduction in discounts

1 that could put the USPS into a virtual death spiral?

2 A I'm talking about first-class mail only. I'm
3 talking about tenths of a cent because a tenth of a cent can
4 mean millions of dollars to Sprint in savings. If those
5 discounts are taken away from us, there is no need for us to
6 continually 100 percent try to do hard copy. We want to do
7 hard copy. I want to keep 218 people employed. I really
8 do. I want to do that, and I want to see the post office
9 grow and be successful. At the same time, there is a bottom
10 line that corporations can or can't do, and once we cross
11 that line and we start seeing that we're not getting any
12 discounts continually in our mail, I feel very strongly that
13 our higher management will say that's enough of it.

14 Now this isn't going to happen, like, tomorrow or
15 anything like that, but this is something that could start
16 meaning less mail that goes to the post office, and
17 basically that would mean less jobs, that would mean less
18 print senders, and I, for one, don't want to see that.

19 Q Okay. Now, you go on to say that such a move
20 would inevitably result in the first-class mailing industry
21 being forced to seek alternative means of communicating with
22 their customers and to eliminate delivery of hard copy
23 through the postal system. It sounds to me like Sprint is
24 already doing everything it can think of to try to seek
25 alternative means of communicating with their customers and

1 to eliminate delivery of hard copy through the postal
2 system. What additional efforts are you talking about here?

3 A I'm talking about anything we dream up between now
4 and then, and believe me, there's people working on it. One
5 thing that you might not understand is that most of the
6 major mailers want to keep hard-copy mail.

7 Q And why is that?

8 A We don't want to see our jobs go away. We don't
9 want to see our people not have jobs. We feel that it's a
10 good way to get the invoices to the customer. There's a lot
11 of studies out that show that mail is an excellent way for
12 advertising and stuff.

13 We are for this. We are not against this, but at
14 the same time we feel that we should have our discounts
15 because of the investments that we have, because of the
16 amount of time we spend preparing the mail. We go to the
17 razor's edge. We have laserjet printers. We have
18 eliminated problems with the post office -- I'm taking
19 Sprint now -- because we try to stay that one step ahead,
20 and we try to work with the post office on anything that we
21 possibly can that's coming down the pike that will benefit
22 us both.

23 So we don't want to say to our higher management,
24 okay, let's take all of our energy and turn it around, and
25 let's go to the Internet. Let's go another way. We

1 personally don't want to do that, but there is going to be a
2 time that if we can't go to our higher management and say,
3 we're not getting anymore discounts reduction because of our
4 work sharing that we believe is more and more worth it, I
5 honestly feel, and so do many, many people in major mailers,
6 and there is going to come a time that they are going to
7 say, enough is enough. We're not going to renew that \$36
8 million contract. We're not going to buy these laserjet
9 printers. We're not going to buy the state-of-the-art
10 stuff. It's going to come to that, ma'am, and we don't want
11 it to.

12 Q What about all of the people who don't want to
13 take their bills on the Internet? Are you going to drop
14 them as telephone customers?

15 A Of course, not. That would be committing suicide.
16 But like I said, this isn't going to happen overnight, but
17 if you start taking the energy that major mailers such as
18 myself put into keeping hard-copy mail and to working long
19 range down the road, it's going to happen. It's just
20 something that's going to happen, especially when you get
21 rid of my generation and maybe a half a generation behind
22 me. There is a place for hard-copy mail, but I'd hate to
23 see it forced out long before it should be. That's only my
24 personal opinion.

25 MS. CATLER: I have no further questions at this

1 point.

2 CHAIRMAN OMAS: Are there any followup questions?
3 Mr. Tidwell?

4 MR. TIDWELL: Just a few questions, Mr. Chairman.

5 CROSS-EXAMINATION

6 BY MR. TIDWELL:

7 Q Good afternoon, Mr. Crider. I would like to
8 direct your attention back to page six of your testimony,
9 particularly around lines 20 and 21 where you describe
10 Sprint mailing services as sorting, banding, palletizing,
11 and shrink wrapping mail and loading it onto trucks at the
12 Postal Service's request. Are any of these activities
13 related solely to your participation in the Postal One
14 program?

15 A Yes, sir.

16 Q So which of these activities would you be doing
17 regardless of whether you were involved in Postal One? And
18 I'm trying to sort out which ones you would be doing anyway
19 and which ones you're doing because you are involved in
20 Postal One.

21 A Well, the ones because of what we're doing in
22 Postal One is how we're tagging them. We're tagging them
23 completely different than we used to. We are tagging and
24 sorting nine different ways than what we used to. We have
25 added nine sorts to our mail because of Postal One for

1 ground transportation and air transportation, and also we've
2 been asked to load the trucks a specific way. On whatever
3 trucks are heading out to whatever destinations, they have a
4 plan that they want us to load the trucks where they can
5 unload those specifically that way. That's what we're doing
6 on that part.

7 Q And that relates to the palletizing and shrink
8 wrapping.

9 A Well, it definitely does to the palletizing
10 because we've added nine more sorts, so that's nine more
11 ways we're sorting the mail, and that means there's nine
12 more pallets sitting on our dock sorted differently than we
13 used to. Now, we have been shrink wrapping about a year and
14 a half, and we've been strapping for about three years, I
15 think it is.

16 Q The trucks that you're referring; are those your
17 trucks or Postal Service trucks?

18 A On all the scheduled pickups they are postal
19 trucks. The only time anymore that we take our trucks down
20 is if we're running late or something, and the postal trucks
21 have already picked up their normal pickup, and we need to
22 get, you know, two, three, four, five, six pallets down,
23 well, then we'll load them on our truck and take them to
24 whichever place we need to take them to.

25 Q So it would be fair to say that if you weren't

1 involved in Postal One, there are some of these activities
2 you wouldn't be doing.

3 A Yes. But we voluntarily have done that with
4 Postal One.

5 MR. TIDWELL: That's all we have.

6 CHAIRMAN OMAS: Is there any additional cross-
7 examination? Mr. Hall, would you like some time with your
8 witness?

9 MR. HALL: I'll take just two minutes, if we may.

10 CHAIRMAN OMAS: Why don't we break for about five
11 minutes, and we'll come back?

12 (Whereupon, at 3:00 p.m., a brief recess was
13 taken.)

14 MR. HALL: I have one or two clarifications that
15 we would like to run through if we could.

16 REDIRECT EXAMINATION

17 BY MR. HALL:

18 Q Mr. Crider, counsel for the Postal Service asked
19 you certain questions about what you were doing for Postal
20 One as compared to the items identified in Part C on page
21 six of your testimony, namely that you sort, band,
22 palletize, shrink wrap the mail, and load it onto trucks.
23 Do you recall those questions?

24 A Yes, I do.

25 Q And I think you may have indicated, or I guess the

1 question was, would you be doing certain of these things
2 anyway even if you weren't involved in Postal One? Is that
3 right?

4 A That's true, we would.

5 Q When you do these things, even though you're not
6 part of Postal One, are you doing them just for the fun of
7 it, or are you doing them to meet some requirements?

8 A It would be to meet the postal regulations that
9 the DMM lays out, our domestic mail manual lays out.

10 Q Right. And so that's why you engage in all of
11 these activities.

12 A Some of them, yes.

13 Q Okay.

14 A The Postal One is not, you know, in the DMM or
15 anything.

16 Q Right. I understand. And with respect to the
17 items that you do have to do to comply with the DMM, is it
18 your testimony that you would like to have some recognition
19 that you're doing those activities rather than the Postal
20 Service doing them, some recognition in discounts?

21 A Definitely, yes, we would like that.

22 Q One other question. You indicated, I think, in
23 response to some questions by counsel for APWU that you,
24 although I understand you're not in charge of processing
25 customer remittances when they send the checks back to you.

1 Is that right?

2 A No, I'm not.

3 Q Okay. Your only responsibility is for the
4 outgoing invoice mail -- right? -- and the other items that
5 you enumerated.

6 A Well, I'm responsible for postal relations, which
7 means that if there is a better way we can do remittance, I
8 am to bring it to their attention and help them out, but as
9 far as having anything to do with it or manage it or daily,
10 no, I have absolutely nothing to do with that.

11 Q The physical locations where the remittance
12 payments come in and are processed; are they the same
13 locations as the outgoing mail facilities for which you're
14 responsible?

15 A No. I'm going to guess, but I would say they are
16 about 12 miles away from us.

17 MR. HALL: Those are all my questions.

18 CHAIRMAN OMAS: Mr. Tidwell?

19 MR. TIDWELL: Just some brief followup, Mr.
20 Chairman.

21 RECROSS-EXAMINATION

22 BY MR. TIDWELL:

23 Q Mr. Crider, putting aside the Postal One program,
24 did I hear you correctly to say that of the activities
25 listed on page six, lines 20 to 21 -- that's the sorting,

1 banding, palletizing, and shrink wrapping -- that some of
2 those activities are required by the DMM and some of those
3 are being done at the request of the Postal Service?

4 A Like the palletizing --

5 Q Yes.

6 A -- and the strapping, yes.

7 MR. TIDWELL: Okay. Thank you. That's all I
8 have.

9 CHAIRMAN OMAS: Mr. Crider, that completes your
10 testimony here today. We appreciate your appearance and
11 your contribution to our record. You did a great job for
12 your first visit, and we thank you, and you are now excused.

13 (The witness was excused.)

14 CHAIRMAN OMAS: Mr. Hall.

15 MR. HALL: Yes, Chairman Omas. At this time we
16 would like to call Richard E. Bentley to testify on behalf
17 of Major Mailers Association.

18 (Discussion off the record.)

19 Whereupon,

20 RICHARD E. BENTLEY

21 having been first duly sworn, was called as a
22 witness herein, and was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. HALL:

25 Q Mr. Bentley, do you have before you a document

Heritage Reporting Corporation
(202) 628-4888

1 labeled Exhibit MMA-SRT-1, entitled "Surrebuttal Testimony
2 of Richard E. Bentley on Behalf of Major Mailers
3 Association"?

4 (The document referred to was
5 marked for identification as
6 Exhibit No. MMA-SRT-1.)

7 A Yes, I do, except that it was originally written
8 down here as ST-1, so I think we've changed it to SRT-1.

9 Q Okay. do you have any corrections for that
10 testimony?

11 A Yes. I have a couple of corrections, and if I can
12 go through them. They are in the tables, just a couple of
13 numbers. On Table 2 on page six the number in the last
14 column to the right for five digits instead of 11.4 should
15 be 11.1. And in Table 3 on the following page for five
16 digits the percentage under the MMA methodology instead of
17 being 81 percent should be 83 percent.

18 Q Are those all the corrections?

19 A Yes.

20 Q Now, was this testimony prepared by you or under
21 your direction and supervision?

22 A Yes.

23 Q And do you adopt it as your sworn testimony in
24 this proceeding?

25 A Yes, I do.

1 Q Now, do you also have before you copies of
2 documents labeled Exhibit MMA-1A, 2A, 3A, and 4A?

3 A Yes.

4 Q Should any corrections be made in those documents?

5 A Yes. I have a correction to the title in Exhibit
6 MMA-1A, on pages six, seven, and eight, and on all three of
7 those pages in the title the word "settlement" should be
8 changed to "APWU."

9 Q And were those exhibits prepared by you or under
10 your direction and supervision?

11 A Yes, they were.

12 Q Are you also sponsoring library references in this
13 proceeding?

14 A Yes, I am.

15 Q Are they library references MMA-LR-J-1 through 3?

16 A Yes.

17 Q And those were prepared by you or under your
18 direction and supervision?

19 A Yes, they were.

20 Q Is it correct that you submitted but are not
21 sponsoring Library Reference 4?

22 A Yes. I do have a correction to Library Reference
23 1.

24 Q Thank you.

25 A And that is on page one, which actually caused the

1 changes that I made to my testimony. In column two for
2 five-digit, presorted letters instead of the unit cost being
3 2.617 it's 2.933. In the same row on column four, instead
4 of the unit cost being 6.850 it's 7.166. And in column five
5 instead of being 11.425 it should be 11.109.

6 Q And thank you for that correction.

7 MR. HALL: Chairman Omas, at this time I would
8 like to move into evidence the surrebuttal testimony of Mr.
9 Bentley that I previously identified, Exhibits MMA-1A
10 through 4A and Library References 1 through 3. I've given
11 the reporter two copies of the surrebuttal testimony and the
12 exhibits. I would ask that we not be required to provide
13 copies, but I could do so if you want, of the library
14 references, and I am prepared, as soon as I can find the
15 appropriate computer machinery, to present the minor
16 correction to Library Reference 1 that Mr. Bentley
17 identified.

18 CHAIRMAN OMAS: Fine. As I noted earlier, there
19 is a pending motion to strike portions of this testimony
20 filed by APWU. Are there any other objections?

21 (No response.)

22 CHAIRMAN OMAS: Hearing none, I will direct
23 counsel to provide the reporter with two copies of the
24 corrected direct testimony of Richard E. Bentley. That
25 testimony is received into evidence and will be transcribed

1 into the record at this point.

2 (The document referred to,
3 previously identified as
4 Exhibit MMA-SRT-1, was
5 received in evidence.)

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ST
Exhibit MMA-ST-1

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

I. INTRODUCTION

A. Statement of Qualifications

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

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

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

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree in Business Administration from Cornell's Graduate School of Business and Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering 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 Agreement¹ (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 billion² (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
¹ See Motion of the United States Postal Service Submitting Second Revised Stipulation and Agreement (January 17, 2002).

² 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,³ 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.⁴

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.

³ 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.

⁴ 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)**

First-Class Workshare Rate Category	Current Discount	USPS Originally Proposed Discount	S&A Proposed Discount	APWU Proposed Discount
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-3.⁵ 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-2.⁶ 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

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.

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 ⁷	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	11.1 11.1
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

⁷ 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
 10
 11

Table 3

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%	83.81%
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 reason⁸, 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.

⁸ 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 3621⁹, 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

⁹ 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.¹⁰

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

¹⁰ 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.¹¹

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.

¹¹ 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)

First-Class Revenue Gain	Original USPS Proposed Rates	S&A Proposed Rates	APWU Proposed Rates
Compared to Test Year Before Rates:			
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
Compared to USPS Original Request:			
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.¹² 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.

¹² 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.

Table 6

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

First-Class Workshare Rate Category	PRC R2000-1 Methodology Cost Savings	Change Due To Miller's Revisions	USPS Cost Savings	% Change Due to Miller's Revisions
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	-3.17	6.47	-49%

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

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

First-Class Workshare Rate Category	PRC R2000-1 Methodology Cost Savings	Impact of Using USPS Cost Method	Impact of Eliminating Cost Pools	Impact of Assumption on Delivery Costs	USPS Cost Savings
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	9.64	-1.15	-0.16	-1.86	6.47

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

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

1. USPS Cost Attribution Methodology

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

Table 8
Specific Impact of Miller's Reliance on CRA Costs Developed
Using the USPS Cost Attribution Methodology
(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

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

¹³ 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-1 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.¹⁴

¹⁴ 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.¹⁵

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.

¹⁵ 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)

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

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.

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

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

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

¹⁶ 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.

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.

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.¹⁹

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	
<i>First-Class Workshare</i>		
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.

¹⁹ 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.²⁰ 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.²¹
 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.

20 I noted that the Postal Service incurs more than \$700 million annually to provide window services.
 21 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 course²² 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

²² 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.

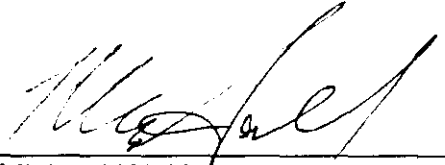
In the last Omnibus rate case, Docket No. R00-1, Mr. Bentley again appeared as a witness for Major Mailers Association and KeySpan Energy, previously known as Brooklyn Union Gas. In that docket, Mr. Bentley showed the workshare cost savings were greater than those derived by the Postal Service, and he 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

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

Description	Vol Variable Cost (1A)	% of Vol Variable Costs (1A)/(2A)	Revenue (3A)	Cost Coverage (3A)/(1A)	Contrib To Off Costs (3A)-(1A) (3A)	% of Other Costs (5B)/(Total (5A)-(5B)) (6A)	Mark Up (4A)-1 (7A)	Mark Up Index (3A)/(Total (5B)) (8A)	Mail Volume (9A)	Unit Revenue (3A)/(9A) (10A)	Unit Cost (11A)/(9A) (11A)	Unit Contrib (10A)-(11A) (12A)	Proposed Increase (10A)/(10B) (13A)	Volume Variable Cost Without Contingency (12A)/(10B) (14A)	Contingency (11A)-(14A) (15A)	Proposed Increase in Revenue Contribution (5A)-(5B) (16A)	% of Proposed Increase in Revenue Contribution (16A)/(17A)
First Class Mail	12,425,858	29.9%	21,878,353	176.1%	9,452,495	28.96%	76.1%	96.97%	46,965,402	0.4668	0.2651	0.2017	7.5%	12,063,940	361,918	1,327,836	26%
Single Piece 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%
Presort and Automation Letters	17,862,230	42.9%	37,869,099	212.2%	20,006,869	61.30%	112.0%	142.78%	98,187,484	0.3457	0.1819	0.2038	8.0%	17,341,970	520,259	2,681,940	51%
Total Letters	559,631	1.3%	630,696	112.0%	71,065	0.22%	12.7%	16.19%	2,634,412	0.2403	0.2132	0.0271	9.7%	543,331	16,300	54,328	1%
Single Piece Cards	145,835	0.4%	488,937	335.3%	343,102	1.05%	235.3%	289.91%	2,642,267	0.1850	0.0652	0.1299	8.8%	141,587	4,248	6,386	0%
Presort and Automation Cards	705,486	1.7%	1,119,633	158.7%	414,167	1.27%	58.7%	74.84%	5,266,679	0.2126	0.1339	0.0786	9.7%	684,918	20,548	60,714	1%
Total Cards	18,567,695	44.6%	38,988,732	210.0%	20,421,037	62.57%	110.0%	140.20%	103,434,163	0.3769	0.1974	0.1974	8.2%	18,026,888	540,807	2,741,905	52%
Total First Class Mail	3,567,868	8.6%	6,200,084	173.8%	2,632,216	8.07%	73.8%	94.04%	11,787,571	5.2598	3.0268	2.2330	13.5%	3,463,950	103,918	573,994	11%
Priority Mail	494,779	1.2%	1,133,705	229.1%	638,926	1.96%	129.1%	164.61%	59,911	16.2164	7.0773	9.1391	9.4%	480,368	14,411	36,708	1%
Express Mail	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%
Mailgrams	78,780	0.0%	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%
Periodicals	2,313,124	5.6%	2,511,600	108.6%	198,476	0.61%	8.5%	10.94%	9,108,974	0.2757	0.2539	0.0218	10.4%	2,245,751	67,373	232,916	4%
Outside County	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	69,667	234,165	4%
Total Periodicals	11,042,480	27.4%	18,592,409	163.7%	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 (A)	1,040,198	2.5%	1,203,568	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%
Regular	542,173	1.3%	635,754	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%
Parcel Post	270,795	0.7%	49,912	115.0%	41,728	0.13%	15.0%	19.06%	27,047	1.8476	0.0000	1.8476	3.3%	270,912	8,127	11,350	0%
Bound Printed Matter	279,039	0.7%	320,767	119.2%	357,678	1.10%	19.2%	24.49%	1,145,778	1.9368	1.6246	0.3122	5.1%	1,807,195	54,216	154,480	3%
Media Mail	1,861,411	4.5%	2,219,089	119.2%	357,678	0.00%	0.0%	0.00%	353,484	0.0000	0.8183	0.8183	0.0%	37,227	1,117	(54)	0%
Total Standard Mail (B)	38,344	0.1%	0	0.0%	(38,344)	-0.12%	82.0%	104.53%	211,756,380	0.3293	0.1809	0.1484	7.8%	37,197,223	1,115,917	4,850,952	92%
Penalty	38,344	0.1%	0	0.0%	(38,344)	-0.12%	82.0%	104.53%	211,756,380	0.3293	0.1809	0.1484	7.8%	37,197,223	1,115,917	4,850,952	92%
Free for the Blind	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 Domestic 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	4,992,089	95%
International Mail	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%
Total All 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%
Special Services	108,721	0.3%	143,868	132.3%	35,147	0.11%	32.3%	41.21%	61,800	3.2280	1.7592	0.5687	9.3%	105,554	3,167	5,492	0%
Registry	12,598	0.0%	17,700	140.5%	5,102	0.02%	40.5%	51.63%	3,100	5.7097	4.0638	1.3	0.0%	12,231	367	(10)	0%
Certified Mail	180,160	0.4%	303,574	168.5%	123,414	0.38%	68.5%	87.32%	229,607	1.3221	0.7845	0.5375	2.8%	174,913	5,247	6,833	0%
Insurance	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	(79)	0%
COD	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	(8)	0%
Money Orders	659,700	1.6%	854,712	129.6%	195,012	0.60%	29.6%	37.68%	17,232	49.6003	38.2834	11.3169	14.5%	640,485	19,215	122,198	2%
Stamped Envelopes	178,511	0.4%	459,831	257.6%	281,320	0.86%	51.7%	65.86%	17,232	49.6003	38.2834	11.3169	14.5%	173,312	5,199	71,284	1%
Box/Caller Service	41,504,240	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%	40,392,466	1,211,774	5,266,466	100%
Total Special Services	32,582,084	82.3%	589,816	1.8%	589,816	0.00%	0.0%	0.00%	632,809	0.0000	0.8183	0.8183	0.0%	32,582,084	632,809	632,809	0%
Other Costs	532,809	1.2%	30,857	5.8%	(21,946)	-0.00%	0.0%	0.00%	72,658,366	0.0000	0.8183	0.8183	0.0%	532,809	632,809	632,809	0%
Prior Years Loss Recovery	74,819,133	17.9%	74,819,133	100.0%	0	0.00%	0.0%	0.00%	72,025,557	0.0000	0.8183	0.8183	0.0%	74,819,133	72,025,557	72,025,557	0%
Continuing Appropriations																	
Investment Income																	
Grand Total																	

(1A),(3A) Exhibit USPS-288, Revised (1/1/10)

(9A) Response to POIR No. 2, Question 6, Attachment Pages 3,4 (Revised 1/1/10)

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

EXHIBIT -1A
Page 1B

Description	Vol Variable Cost (1B)	% of Vol Var Costs (1B) / Total (1B) (2B)	Revenue (3B)	Cost Coverage (3B) / (1B) (4B)	Contrib To Oth Costs (3B) - (B1) (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)	Volume Variable Cost Without Contingency (1B) / 1.03 (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		589,816										31,661,021	949,831
Other Income														
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
(PRC Cost Methodology)
(Thousands Except For Units)**

E) IMA-1A
Page 2A

Description	Vol Variable Cost (1A)	% of Vol Variable Costs (1A)/(1A)+(2A) (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 (1A)/(Total (1A) (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)/(103 (13A)	Contingency (11)-(13A) (14A)	Proposed Increase In Revenue Contribution (5A)-(5B) (15A)	% of Proposed Increase In Revenue Contribution (15A)/(Total (15) (16A)
First Class Mail																
Single-Piece Letters	13,694,415	30.2%	21,878,353	159.8%	8,183,938	28.3%	59.8%	93.7%	48,865,402	0.4668	0.2922	0.1746	13,295,549	398,866	1,338,879	26%
Presort and Automation Letters	5,988,916	13.2%	15,990,746	267.1%	10,001,830	34.6%	167.1%	262.1%	51,322,082	0.3116	0.1167	0.1949	5,812,540	174,376	1,340,617	26%
Total Letters	19,683,332	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	624,401	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	158,197	4,686	7,840	0%
Total Cards	785,284	1.7%	1,119,633	142.6%	334,349	1.2%	42.6%	66.8%	5,266,679	0.2126	0.1491	0.0635	762,412	22,872	63,288	1%
Total First-Class Mail	20,468,616	45.1%	38,988,732	190.5%	18,522,116	64.1%	90.5%	142.0%	103,454,163	0.3769	0.1978	0.1790	19,870,501	596,115	2,742,783	54%
Priority Mail	3,888,416	8.6%	6,200,084	159.5%	2,311,668	8.0%	59.5%	93.2%	1,178,757	5.2598	3.2987	1.9611	3,775,161	113,255	517,723	10%
Express Mail	614,341	1.4%	1,133,705	184.5%	519,364	18.6%	84.5%	132.6%	69,911	16.2164	8.7875	7.4289	596,448	17,893	24,330	0%
Mailgrams	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%
Periodicals		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%
Standard Mail (A)																
Regular			11,042,480						47,296,185	0.2335					0	
Nonprofit			1,669,063						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						33,125,689	0.1677					0	
Nonprofit ECR			325,210						3,236,397	0.1005					0	
Total ECR & NP/ECR	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%
Standard Mail (B)																
Parcel Post	1,049,630	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%	37.6%	588,557	1.1621	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%
Penalty								0.0%	353,484							0%
Free-for-the-Blind	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%
Total Domestic Mail	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%
International Mail	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%
Total All Mail	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%
Special Services																
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%	696,629	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	2.3780	1.7604	0.5676	105,623	3,189	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	0.0189	0.0031	2,800	84	(38)	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	378	(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	121,812	2%
Other	278,455	0.6%	459,831	165.1%	181,376	0.6%	65.1%	66.9%					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%
Total Mail & Services	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%
Other Costs	28,758,382												27,920,758	837,623		
Other Income			589,816													
Prior Years Loss Recovery	632,809												632,809			
Continuing Appropriations			30,857													
Investment Income			(21,948)													
Grand Total	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 Fin.

(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs (1B) / Total (1B)	% of Variable Costs (2B)	Revenue (3B)	Cost (4B)	Contrib To (5B)	Other Costs (6B) / Total (6B)	Mark Up (7B) - 1 (7B) / Total (7B)	Mark Up Index (8B)	Mail Volume (9B)	Revenue (10B) / (10B) - (10B)	Unit (11B)	Unit Cost (12B)
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First Class Mail	13,956,342	30.22%	20,803,401	149,000	6,845,059	28.8%	49.0%	95.2%	47,899,389	0.4343	0.2914	0.1229
Single-Piece Letters	5,959,367	12.90%	14,622,580	245,400	8,663,213	36.4%	145.4%	282.2%	51,299,213	0.2850	0.1162	0.1689
Presort and Automation Letters	19,917,709	43.12%	35,425,981	177,900	15,508,272	65.2%	177.9%	151.1%	99,198,602	0.3571	0.1162	0.1689
Total Letters	641,031	1.39%	591,878	92,300	(49,153)	-0.2%	-7.7%	-14.9%	2,703,008	0.2190	0.2372	-0.0182
Single-Piece Cards	820,320	1.78%	1,091,381	133,000	271,061	1.1%	33.0%	64.1%	5,633,775	0.1937	0.0466	0.0481
Presort and Automation Cards	20,738,029	44.90%	36,517,362	176,100	15,779,333	66.3%	76.1%	147.8%	104,832,377	0.3483	0.1978	0.1505
Total First-Class Mail	4,031,327	8.73%	5,825,272	144,500	1,793,945	7.5%	44.5%	86.4%	1,257,064	0.4340	0.2069	1.4271
Priority Mail	650,229	1.41%	1,145,263	176,100	495,034	2.1%	76.1%	147.8%	77,239	14,8275	8.4184	6.4091
Express Mail	803	0.00%	1,131	140,800	328	0.0%	40.8%	79.3%	2,725	0.4150	0.2947	0.1204
Periodicals	82,452	0.18%	81,338	98,600	(1,114)	0.0%	-1.4%	-2.6%	855,781	0.0950	0.0963	-0.0013
Within County	2,494,047	5.40%	2,293,977	92,000	(200,070)	-0.8%	-8.0%	-15.6%	9,182,082	0.2498	0.2716	-0.0218
Outside County	2,576,499	5.58%	2,375,315	92,200	(201,184)	0.8%	-7.8%	-15.2%	10,037,863	0.2366	0.2567	-0.0200
Total Periodicals	10,484,194	20.79%	12,057,279	1,573,085	2,452,660	10.3%	25.5%	49.6%	11,943,287	0.1317	0.1591	0.0406
Nonprofit	9,604,619	20.79%	12,057,279	1,573,085	2,452,660	10.3%	25.5%	49.6%	60,367,840	0.1997	0.1317	0.0406
Total Regular & Nonprofit	1,158,165	2.53%	1,232,559	105,500	64,394	0.3%	5.5%	10.7%	405,634	3.0386	2.8798	0.1587
Standard Mail (B)	564,748	1.22%	644,734	114,200	79,986	0.3%	14.2%	27.5%	594,824	1.0839	0.9494	0.1345
Bound Printed Matter	292,767	0.63%	309,507	161,120	16,740	0.1%	5.7%	11.1%	1,186,669	1.8428	1.5722	0.0899
Library Rate	2,025,680	0.00%	2,186,800	161,120	16,740	0.1%	5.7%	11.1%	1,186,669	1.8428	1.5722	0.0899
Total Media & Library	40,782	0.09%	0	(40,782)	0	0.0%	0.0%	0.0%	353,484	46,859	0.1990	0.1079
Free-for-the-Blind	42,643,658	92.32%	65,766,829	154,200	23,123,171	97.2%	54.2%	105.3%	214,887,965	0.3069	0.1990	0.1079
Total Domestic Mail	1,738,232	3.76%	1,892,822	108,900	154,590	0.6%	8.9%	17.3%	1,889,500	1.4679	1.3480	0.1199
International Mail	44,381,890	96.08%	67,659,651	152,400	23,277,761	97.8%	52.4%	101.8%	215,577,465	0.3139	0.2059	0.1080
Total All Mail	58,469	0.13%	93,555	160,000	35,086	0.1%	60.0%	116.5%	10,515	8,8973	5.5605	3.3368
Special Services	479,387	1.04%	555,787	124,300	116,400	0.5%	24.3%	47.1%	283,708	2.1000	1.6897	0.4103
Certified Mail	170,012	0.23%	166,607	127,700	29,595	0.1%	27.7%	53.7%	64,165	2.1290	1.6678	0.4612
Insurance	14,412	0.03%	17,700	132,000	4,288	0.0%	32.0%	62.1%	3,100	5.7097	4.3265	1.3832
COD	180,169	0.39%	298,219	165,500	118,050	0.5%	65.5%	127.2%	231,804	1.2865	0.7772	0.5093
Money Orders	3,085	0.01%	3,567	118,200	552	0.0%	18.2%	35.4%	182,342	0.0200	0.0169	0.0031
Stamped Envelopes	12,916	0.03%	16,102	124,700	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	112,600	83,273	0.3%	12.6%	24.4%	17,232	43,3101	38,4776	4.832
Other	291,093	0.63%	417,484	143,400	126,391	0.5%	43.4%	86.4%	1,257,064	0.4340	0.2069	1.4271
Total Special Services	1,808,589	3.92%	2,325,420	128,600	516,831	2.2%	28.6%	55.5%	215,577,465	0.3246	0.2143	0.1104
Total Mail & Services	46,190,479	100.00%	69,985,071	151,500	23,794,592	100.0%	51.5%	100.0%	215,577,465	0.3246	0.2143	0.1104
Other Costs	29,006,232		589,816									
Prior Years Loss Recovery	632,809		30,857									
Continuing Appropriations			(22,434)									
Investment Income												
Grand Total	75,829,520		70,583,310		(5,246,210)							

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

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

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

Proposed Rates

EXHI

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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)
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%	53,996	1%
Presort and Automation Cards	145,835	0.4%	488,937	335.3%	343,102	1.05%	235.3%	300.67%	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%	139.99%	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	16.2164	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			1,669,063						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	12.35%	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	8.2%		
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			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%	19.11%	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	257.6%	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 Se
(PRC Cost Methodology, No Volume Change)
(Thousands Except For Units)**

it Proposed Rates

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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)
First-Class Mail															
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%
Periodicals															
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%	2,511,100	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	0.2804	0.2570	0.0034	10.0%	65,965	5%
Standard Mail (A)															
Regular			11,042,480						47,295,185	0.2335	0.0000	0.2335	7.8%		
Nonprofit			1,669,963						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			5,555,656						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	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%
Standard Mail (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	4.9%		
Library Rate			49,972						27,047	1.8476	0.0000	1.8476	3.3%		
Total Media & Library	292,805	0.6%	370,767	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%
Penalty									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%	69,646,594	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%	71,564,550	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%
Special Services															
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/Carrier 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%
Other Costs	28,758,382														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,948)												
Grand Total	74,728,598		74,757,949		29,352										

(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 ~~Cost~~
(USPS Cost Methodology, No Volume Change)
(Thousands Except For Units)

Proposed Rates

EXH.

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Description	Var 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)
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	559,631	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%	85,310	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	0.1465	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 & NP/ECR	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%
									353,484						0%
Penalty									46,859	0.0000	0.8183	-0.8183		(54)	0%
Free-for-the-Blind	38,344	0.1%	0	0.0%	(38,344)	-0.11%									
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	12,598	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	180,160	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	151.7%	281,320	0.83%	51.7%	63.08%						71,284	1%
Total Special Services	1,710,568	4.1%	2,594,374	151.7%	883,806	2.59%								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		589,816												
Other Income															
Prior Years Loss Recovery	632,809		30,857												
Continuing Appropriations			(21,948)												
Investment Income															
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 Set
(PRC Cost Methodology, No Volume Change)
(Thousands Except For Units)

Proposed Rates

EXH 1A-1A
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Description	Vol Variable Cost (1)	% of Vol Var Costs (1)/(2) (2)	Revenue (3)	Cost Coverage (3)/(1) (4)	Contrib To Oth Costs (3)/(1) (5)	% of Other Costs (5)/(6) (6)	Mark Up (4)-(1) (7)	Mark Up Index (7)/(1) (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)-(13B) (14)	% of Proposed Increase In Revenue Contribution (14)/(15) (15)
First Class Mail															
Single Piece Letters	13,694,415	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	19,681,332	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	624,401	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%
Periodicals															
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%
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	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%
Standard Mail (B)															
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%
Penalty									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%
Special Services															
Registry	58,268	0.1%	98,550	169.1%	40,282	0.13%	69.1%	103.28%	10,331	9.5393	1.6401	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/Carrier 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%
Other Costs	28,758,382														
Other Income			589,816												
Prior Years Loss Recovery	632,809														
Continuing Appropriations			30,857												
Investment Income			(21,948)												
Grand Total	74,728,598		76,282,569		1,553,972										

(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

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

EXHIBIT MMA-1A
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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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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)
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												
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/Carrier 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%	
<u>Impact on First-Class Rates (\$000)</u>					
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
<u>Impact on All Classes and Services (\$000)*</u>					
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)	Revenue Increase			(9)	(10)	(11)	(12)	(13)	(14)
	Billing Determinant (000)	Current Rate (\$)	USPS Proposed Rate (\$)	APWU 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 @ APWU Proposed Rates	Change in Avg Rev per 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
Single Piece	46,542,265	0.34	0.37	0.37	1,396,268	349,067	1,396,268	1,745,335	349,067				17,220,638	
QBRM	323,137	0.31	0.345	0.364	11,310	4,362	17,449	21,812	10,502				117,622	
Additional Ounces	17,575,735	0.23	0.23	0.23	-	-	-	-	-				4,042,419	
Nonstd Pieces	942,633	0.11	0.12	0.12	9,426	2,357	9,426	11,783	2,357				113,116	
Total Single Piece					1,417,004	355,786	1,423,144	1,778,930	361,926	47,899,389	46,865,402	20,454,237	21,493,795	7.40%
Nonauto letters	3,579,306	0.322	0.352	0.364	107,379	37,583	150,331	187,914	80,534				1,302,867	
Additional Ounces	652,990	0.230	0.225	0.23	(3,265)	-	-	-	3,265				150,188	
Nonstd Pieces	875,140	0.050	0.055	0.055	4,376	1,094	4,376	5,470	1,094				48,133	
Heavy Pc Deduction	196,933	(0.046)	-0.041	-0.041	985	246	985	1,231	246				(8,074)	
Total Non-automation					109,475	38,923	155,691	194,614	85,139	3,679,940	3,579,306	1,331,986	1,493,114	15.25%
Mixed AADC Letters	2,869,417	0.280	0.309	0.33	83,213	35,868	143,471	179,339	96,125				946,908	
AADC Letters	3,071,405	0.280	0.301	0.323	64,500	33,018	132,070	165,088	100,589				992,064	
Auto 3-Digit Letters	24,694,572	0.269	0.294	0.320	617,364	314,856	1,259,423	1,574,279	956,915				7,902,263	
Auto 5-Digit Letters	15,517,542	0.255	0.280	0.311	387,939	217,246	868,982	1,086,228	698,289				4,825,955	
Add'l Ounces	1,250,473	0.230	0.225	0.23	(6,252)	-	-	-	6,252				287,609	
Heavy Pc Deduction	86,041	-0.046	-0.041	-0.041	430	108	430	538	108				(3,528)	
Total Auto Letters					1,147,193	601,094	2,404,377	3,005,471	1,858,278	46,045,879	46,152,936	12,517,783	14,951,271	19.16%
Auto Carrier Route	870,451	0.245	0.275	0.311	26,114	14,362	57,450	71,812	45,699				270,710	
Add'l Ounces	38,149	0.230	0.225	0.230	(191)	-	-	-	191				8,774	
Heavy Pc Deduction	3,483	-0.046	-0.041	-0.041	17	4	17	22	4				(143)	
Total Carrier Route					25,940	14,367	57,467	71,834	45,894	911,527	870,451	232,345	279,342	25.90%
Mixed AADC flats	91,996	0.312	0.341	0.37	2,668	1,334	5,336	6,670	4,002				34,038	
AADC flats	49,275	0.312	0.333	0.37	1,035	714	2,858	3,572	2,538				18,232	
3-Digit flats	63,015	0.297	0.322	0.37	1,575	1,150	4,600	5,750	4,175				23,315	
5-Digit flats	515,103	0.277	0.302	0.311	12,878	4,378	17,514	21,892	9,014				160,197	
Add'l Ounces	1,559,588	0.230	0.225	0.23	(7,798)	-	-	-	7,798				358,705	
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	0.050	0.055	0.055	718	179	718	897	179				7,895	
Total Auto Flats					12,631	8,145	32,580	40,725	28,095	661,867	719,389	512,383	589,631	5.87%
Total Presorted					1,295,239	662,529	2,850,116	3,312,644	2,017,406	51,299,213	51,322,082	14,594,497	17,313,357	18.58%
Total First Class Letters					2,712,243	1,018,315	4,073,259	5,091,574	2,379,331	99,198,602	98,187,484	35,048,734	38,807,152	11.86%
Stamped Cards	170,412	0.210	0.230	0.230	3,408	852	3,408	4,260	852				39,195	
Post Cards at Letter Rates	2,270,775	0.210	0.230	0.230	45,416	11,354	45,416	56,769	11,354				522,278	
Post Cards at Letter Rates	114,887	0.340	0.370	0.370	3,447	862	3,447	4,308	862				42,508	
QBRM	68,337	0.180	0.205	0.224	1,708	752	3,007	3,759	2,050				15,307	
Total S. P. Cards					53,979	13,819	55,277	69,096	15,118	2,703,008	2,624,411	580,937	619,289	9.79%
Non-auto Presort Cards	216,053	0.19	0.212	0.224	4,753	1,836.45	7,346	9,182	4,429				48,396	
Mixed AADC Cards	235,969	0.174	0.194	0.22	4,719	2,713.64	10,855	13,568	8,849				51,913	
AADC Cards	252,580	0.174	0.187	0.216	3,284	2,652.09	10,608	13,260	9,977				54,557	
3-Digit Cards	1,159,708	0.168	0.183	0.215	17,396	13,626.56	54,506	68,133	50,737				249,337	
5-Digit Cards	726,357	0.161	0.176	0.21	10,895	8,897.87	35,591	44,489	33,594				152,535	
Carrier Route Cards	51,601	0.15	0.170	0.21	1,032	774.02	3,096	3,870	2,838				10,836	
Total Presort Cards					42,079	30,501	122,003	152,503	110,424	2,930,767	2,842,267	498,427	567,575	26.31%
Total Cards					96,058	44,320	177,280	221,600	125,542	5,633,776	5,266,679	1,079,364	1,188,863	17.62%
Total First Class					2,808,301	1,062,635	4,250,539	5,313,174	2,504,873	104,832,378	103,454,182	36,128,098	39,994,016	12.18%
Conclusions (\$'000):	With expedited implementation, by the end of FY 2003 USPS revenue gains from proposed settlement are:									5,313,174	(4) APWU-T-1, Table III			
	With no settlement, by the end of FY 2003 USPS revenue gains from its proposals are:									2,808,301				
	Net revenue gain to USPS with Settlement at APWU proposed rates from all First-Class Letters:									2,504,873				

	USPS	APWU	Difference
S.P.	1,470,983	1,478,421	7,438
Work	1,337,318	2,772,118	1,434,800
Total	2,808,301	4,250,539	1,442,238

Rate Category	(1) Billing Determinant (000)	(2) Current Rate (\$)	(3) USPS Proposed Rate (\$)	(4) Settlement Proposed Rate (\$)	(5) Revenue Increase w/o Settlement FY 03	(6) Revenue Increase With Settlement			(9) Net Revenue Increase By FY 2003	(10) TY Before Rates Volume (000)	(11) TY After Rates Volume (000)	(12) Tot Rev @ Current Rates	(13) Tot Rev @ Settlement Proposed Rates	(14) Change in Avg. Rev per Piece
						7/1/02 through 9/30/02	10/1/02 through 9/30/03	Total Revenue thru FY 03						
Single Piece	LR-J-102				((3)-(2))*1	((4)-(2))*1	((4)-(2))*1	((6)-(7))	((8)-(5))	LR-J-102	LR-J-102	LR-J-102	(1)*(4)	(11)/(10)-1
QBRM	46,542,265	0.34	0.37	0.37	1,396,268	349,067	1,396,268	1,745,335	349,067				17,220,638	
Additional Ounces	323,137	0.31	0.345	0.34	11,310	2,424	9,694	12,118	808				109,867	
Nonstd Pieces	17,575,735	0.23	0.23	0.23	-	-	-	-	-				4,042,419	
Total Single Piece	942,633	0.11	0.12	0.12	9,426	2,357	9,426	11,783	2,357				113,116	
Nonauto letters					1,417,004	353,847	1,415,388	1,769,235	352,231	47,899,389	46,865,402	20,454,237	21,486,039	7.36%
Additional Ounces	3,579,306	0.322	0.352	0.352	107,379	26,845	107,379	134,224	26,845				1,259,918	
Nonstd Pieces	652,990	0.23	0.225	0.225	(3,265)	(816)	(3,265)	(4,081)	(816)				146,923	
Heavy Pc Deduction	875,140	0.05	0.055	0.055	4,376	1,094	4,376	5,470	1,094				48,133	
Total Non-automation	196,933	-0.046	-0.041	-0.041	985	246	985	1,231	246	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	356,903	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	1,066,769	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	179				7,895	
Total Auto Flats					12,631	3,158	12,631	15,788	3,158	661,867	719,389	512,383	569,881	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	37,364,086	7.70%
Stamped Cards	170,412	0.21	0.23	0.230	3,408	852	3,408	4,260	852				39,195	
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				13,687	
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	4,753	5,941	1,188				45,803	
Mixed AADC Cards	235,969	0.174	0.194	0.194	4,719	1,179	4,719	5,899	1,180				45,778	
AADC Cards	252,580	0.174	0.187	0.187	3,284	820	3,284	4,104	821				47,232	
3-Digit Cards	1,159,708	0.168	0.183	0.183	17,396	4,348	17,396	21,745	4,349				212,226	
5-Digit Cards	726,357	0.161	0.176	0.176	10,895	2,723	10,895	13,619	2,724				127,839	
Carrier Route Cards	51,601	0.15	0.17	0.170	1,032	258	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	119,645	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:
 With no settlement, by the end of FY 2003 USPS revenue gains from its original proposals are:
 Net revenue gain to USPS with Settlement proposed rates from all First-Class Letters:

	USPS	APWU	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
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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)

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<u>Description</u>	<u>Vol Variable Cost (7)</u>	<u>Revenue (8)</u>	<u>Contrib To Oth Costs (8) - (7) (9)</u>	<u>Mail Volume (10)</u>	<u>Unit Revenue (8) / (10) (11)</u>
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. R2000-1.¹ 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**² 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.

¹ 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.

² Non-Automation, Machinable Mixed AADC letters.

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

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

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

In response to an MMA interrogatory, the Postal Service provided the 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)**

USPS City Carrier In-Office Costs Using Total Volumes	Single Piece City Carrier In- Office TY Unit Cost	Presorted City Carrier In- Office TY Unit Cost
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)**

Corrected City Carrier In-Office Costs Using Actual Volumes Delivered	Single Piece City Carrier In- Office TY Unit Cost	Presorted City Carrier In- Office TY Unit Cost
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

1 are spread over total volumes.³ However, as Table 2 clearly shows, when the
2 city carrier costs are spread over the actual volumes processed and delivered by
3 city carriers, a far different story emerges: single piece letters (6.36 cents) are
4 2.25 cents or 55% more expensive to process than presorted letters (4.11 cents).
5 Moreover, DPS savings for presorted letters increase by 52%, from 2.61 cents
6 (Table 1) to 3.97 cents (Table 2).

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

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

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.

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.⁵ 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.⁶

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

⁵ 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.

⁶ 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.⁷

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

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.⁸ 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**.

⁸ 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
First-Class Single Piece				
Single Piece Letters Stamped	NA	5.66	10.65	9.98
Single Piece Letters Metered	NA	6.30	7.48	6.78
Single Piece Letters Other	NA	7.59	9.02	8.31
Total Single Piece Letters	6.04	6.04	8.96	8.27
First-Class Workshare				
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	4.90
Auto AADC	4.01	4.08	NA	4.80
Auto 3-Digit Letters	3.98	4.05	NA	4.77
Auto 5-Digit Letters CSBCS/Man	6.16	5.37	NA	6.32
Auto 5-Digit Letters Other Sites	2.89	3.40	NA	4.00
Total 5-Digit Letters	3.79	3.60	NA	4.23
Auto CR Letters	6.06	5.31	NA	6.25
Total Automation Letters	3.94	4.06	NA	4.78
Total Workshare Letters	4.17	4.17	NA	4.91

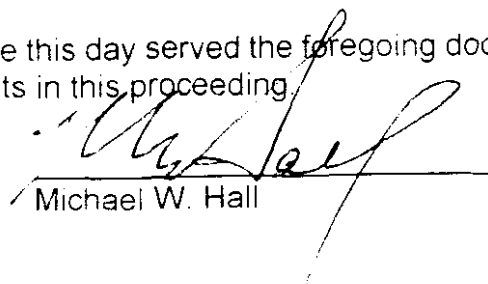
Sources: Library Reference USPS-LR-J-117; Library Reference MMA-LR-J-2

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

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

1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination. One party has requested oral cross-
3 examination, the American Postal Workers Union, AFL-CIO. Is
4 there any party who would like to cross-examine Witness
5 Bentley?

6 MR. TIDWELL: The Postal Service will follow up
7 APWU with some cross-examination.

8 CHAIRMAN OMAS: All right. Ms. Catler.

9 MS. CATLER: Thank you, Mr. Chairman.

10 CROSS-EXAMINATION

11 BY MS. CATLER:

12 Q Good afternoon, Mr. Bentley.

13 A Good afternoon.

14 Q Mr. Bentley, you testified on page one of your
15 testimony, in your statement of qualifications, you state
16 that you've testified before the rate commission in four
17 separate proceedings. While you were at the Commission and
18 since leaving the Commission, numerous times.

19 The testimony that you have presented today; have
20 you presented any similar testimony or covering any of the
21 same topics on prior occasions to the rate commission?

22 A I'm sure I have, yes.

23 Q Can you tell us some of the times that you have
24 presented similar testimony and testimony on the same topics
25 to the rate commission?

1 A Well, the first time I ever testified on behalf of
2 first-class mailers was Docket Number R-80-1. Prior to
3 that, I testified on behalf of the OOC, which is the
4 forerunner to the OCA, and I testified to all rates and
5 services in 1977. So starting in R-80, again in R-84 for
6 first class, again in R-87, R-90, R-94, MC-95-1, R-97, and
7 R-2000.

8 Q And in some or all of that prior testimony did you
9 present some variation of the methodologies that you're
10 presenting in this testimony?

11 A Well, we sort of changed gears in R-97, but prior
12 to R-97 there are similarities in how we measured cost
13 savings. So the answer is a gray area but yes.

14 Q Now, in R-2000-1 you presented testimony on cost
15 avoidance and cost savings and methodology for first-class
16 mail. Right?

17 A Yes, and that was pretty similar to what I
18 presented here.

19 Q Right. And you presented that as the case-in-
20 chief for which participants?

21 A Major Mailers Association.

22 Q It was not rebuttal or surrebuttal testimony, was
23 it?

24 A I did file rebuttal testimony in that case. I'm
25 sure I filed my original case-in-chief which provided that

1 cost savings analysis, but I think I provided it again as
2 rebuttal testimony.

3 Q Okay. And I take it that your methodology was
4 originally presented in R-97 in your case-in-chief. Isn't
5 that correct?

6 A Yes. I think that that's probably correct.

7 Q And on whose behalf did you file that case-in-
8 chief in R-97?

9 A MMA.

10 Q Okay. And are you saying that prior to that,
11 while you did provide testimony on cost-avoidance
12 methodology, the appropriate methodology to use to calculate
13 cost avoidance, it was some other methodology than the one
14 you started using in R-97-1?

15 A In theory, it's fairly similar, but in practice it
16 was different. And you might recall the Appendix F
17 methodology used in R-90 and R-87, and that was something
18 similar to what I had used in R-84, which I presented to the
19 Commission at that point.

20 Q Okay. But in all of those cases when you
21 presented your methodology, you presented it in your case-
22 in-chief for your client. Is that correct?

23 A Yes. I don't think I filed rebuttal testimony at
24 all except for R-2000, the last case.

25 Q Mr. Bentley, at page three of your testimony,

1 lines three through four, you state that "the main purpose
2 for my testimony is to show that the work share discounts
3 proposed in the S&A --" I presume that's the stipulation and
4 agreement "-- are, in fact, far lower than the relevant cost
5 savings." This is some of the language we've moved to
6 strike obviously. But is it your testimony that your
7 testimony here is, the main purpose of it is to put in your
8 alternative methodology and show that using that, that the
9 cost saving is even greater than that that's been presented
10 thus far in the Postal Service's methodology?

11 A I don't know if I would characterize it as my
12 methodology. It's methodology that has been used before by
13 the Commission.

14 Q Do you mean the one you call "MMA methodology"?
15 You don't consider that yours?

16 A No. I'll get to that. The methodology that was
17 used by the Commission is certainly part of my testimony
18 here, but I can't, in all good faith and honesty, recommend
19 to the Commission that it accept a number or a study that
20 has a problem with it, so I corrected the study for them,
21 and I've just given them an alternative. So that's why I
22 have two methodologies here, which both, by the way, support
23 the stipulation and agreement.

24 Q On page two, at lines 10 through 12, you state
25 that the change in the -- you state that for first-class

1 work share mailers like MMA members the S&A also mitigated
2 somewhat the disproportionately high rate increase, 9.3
3 percent, proposed in the Postal Service's initial filing.
4 This increase was disproportionately high compared to what?

5 A To the average for all classes, which was 8.7.

6 Q Okay. And what about compared to the first-class,
7 first- ounce rate?

8 A It was high compared to that also, which was, I
9 think, 7.4 percent.

10 Q Okay. One of these things with percentages is
11 that a lot depends on the base, doesn't it? The increase
12 that's being proposed for the first-class, single-piece rate
13 was three cents. Right?

14 A On an absolute basis, yes.

15 Q And the increase originally proposed for three-
16 and five-digit was the 2.5 cents.

17 A It sounds right, but I certainly would have to
18 check it. But again, you're looking at the absolute basis.

19 Q Right. As a result of the stipulation and
20 agreement, that increase has been lowered to 2.3 cents. Is
21 that right?

22 A That sounds right.

23 Q And so the first-class, single piece is going up
24 under any of these scenarios more than, in absolute money,
25 more than that for the work-sharing groups because the work-

1 sharing mail is already at a lower base, the percentage
2 increase generated by a smaller increase creates a larger
3 percentage increase. Is that right?

4 A Well, there's a couple of things going on here.
5 First, you're comparing specific rate elements rather than
6 the entire rate or the average increase for the entire
7 category. So I don't want to agree to something when we're
8 really just talking about specific rate elements. But I
9 will say in general mathematics will for the same increase
10 on an absolute basis, the lower base will have a higher
11 percentage increase.

12 Q So every time the Postal Service tries to raise
13 the rates for the work-sharing groups the same amount, the
14 same number of cents, as it does for those of us who
15 actually use single-piece, first-class mail, the percentage
16 increase is always going to be higher for the work-sharing
17 group, given that they have a lower base to begin with.
18 Isn't that right?

19 A This is an issue we used to play with a long time
20 ago because back then the second-class mailers always had
21 such low rates, and we used to complain that, gee whiz,
22 their base was always so low. The point is, yes, if you
23 raise two categories the same amount, absolutely it will
24 have a greater percentage. If you take the reverse of that,
25 and you raise the same percentage, the lower base will have

1 a lower amount on an absolute basis for the increase.

2 Q And so when you're talking about
3 disproportionately high, you're talking obviously on a
4 percentage basis because on an absolute basis their rate
5 increase is lower than the rate increase that's going to be
6 paid under any scenario by the average citizen of this
7 country who mails single-piece, first-class mail.

8 A I have to tell you, I never looked at it on an
9 absolute basis, only a relative basis.

10 Q I take it, that's what you meant by
11 disproportionate. I understand now.

12 On page three in your testimony, at lines four
13 through seven, you discuss that you're going to focus your
14 testimony on USPS Witness Miller's cost savings numbers and
15 the changes he made compared to what the Commission has done
16 in the past but that you are eliminating other elements that
17 you would normally have addressed if MMA were filing a case-
18 in-chief. Now, would you agree that part of your case-in-
19 chief in the last rate case, R-2000-1, was to take issue
20 with where Mr. Miller had made methodological changes from
21 the R-97 methodology that the Commission used?

22 A It sure sounds right. I'm not sure I can remember
23 exactly what I did back then, but so far, go ahead.

24 Q So in other words, this argument that you're
25 making here today was part of your case-in-chief and would

1 have been part of your case-in-chief this time had you made
2 one, would it not?

3 A I'm sure I would have made changes to what Mr.
4 Miller presented to the Commission in this case as part of
5 my case-in-chief, and it would have been different from what
6 I've proposed here.

7 Q On page four of your testimony, at lines five
8 through 12, you claim that Mr. Reilly has ignored two other
9 estimates of work share cost savings that were provided by
10 the Postal Service and are included in the record. Now, Ms.
11 Robinson was the Postal Service's first-class-rate-design
12 witness, wasn't she?

13 A As far as I know, yes.

14 Q You have read her testimony.

15 A I have read her testimony.

16 Q And you were here for her oral testimony.

17 A I know I was here when you cross-examined her.

18 Q I don't know when else she was testifying.

19 A Was that the only time that she testified? Okay.
20 Yes, yes. Okay.

21 Q Now, Ms. Robinson's proposed first-class rates are
22 those that are in the stipulation and agreement, aren't
23 they, except for the changes that were negotiated between
24 the major mailers and the Postal Service? Isn't that right?

25 A They are very similar except for those changes, yes.

1 Q Now, are these two other estimates of work share
2 costs that you complain that Mr. Reilly has ignored; were
3 they included in any place in Ms. Robinson's testimony?

4 A They were not included in her testimony. She is
5 not even a cost witness, so I wouldn't expect to see it
6 there.

7 Q But when she talked about costs, she talked about
8 Miller's costs in his Library Reference J-60. Those are the
9 only costs that she referred to, aren't they?

10 A I'm sure she is relying on what Mr. Miller said
11 and was not happy about the other cost figures that are in
12 the record. They were not proposed by the Postal Service.

13 Q And so, therefore, aren't the stipulation and
14 agreement rates that we've already agreed to; weren't they
15 based on Mr. Miller's cost-avoidance calculations in Library
16 Reference J-60?

17 A I can't answer that question.

18 Q Excuse me?

19 A I can't answer the question whether those rates
20 were based on Mr. Miller's costs the way they were
21 negotiated in the settlement.

22 Q Excuse me. With the exception of the two changes
23 that were made to the three-digit and the five-digit and the
24 QBRM change, the negotiated changes, with the exception of
25 the negotiated changes the rates in the stipulation and

1 agreement are those that were presented in Ms. Robinson's
2 testimony. Right?

3 MR. HALL: I think I'm going to object to the
4 extent that counsel is trying to get behind what the
5 settlement agreement is of the parties. Settlement
6 discussions are typically privileged and confidential.

7 MS. CATLER: No, no, no. I am not trying to get
8 behind the settlement agreement of any sort. What I'm
9 talking about is that he is complaining that Mr. Reilly has
10 ignored these two other cost things that are in the record,
11 and Ms. Robinson's rate-design testimony for the first-class
12 rates, which is the basis of the first-class rates that are
13 in the stipulation and agreement, that her testimony only
14 refers to the third cost, the only thing Mr. Reilly referred
15 to, the same thing Ms. Robinson referred to, which is Mr.
16 Miller's Library Reference J-60. He is complaining because
17 Reilly ignored the same two things that Robinson ignored,
18 and I'm trying to get him to admit that, that's all.

19 MR. HALL: Well, I think maybe there is a
20 different objection here or a suggestion that counsel should
21 probably proceed en brief to the extent that counsel may be
22 suggesting that the four corners of what we're working with
23 here are circumscribed by what Ms. Robinson put in her
24 testimony or what Mr. Miller put in his. There is nothing
25 in the settlement that would require that. If she thinks

1 there is, then it's appropriate to discuss that en brief.

2 It's not appropriate to discuss it with this
3 witness, who is here to talk about the record. If she wants
4 to talk about the record, I believe it's the case, but maybe
5 Mr. Bentley has got a different recollection than mine about
6 the timing of when these things got into the record. It's
7 my understanding that we're working with a record here, not
8 simply what counsel would prefer to describe as the record.

9 CHAIRMAN OMAS: Ms. Catler, I think there is no
10 way for us to know what the settlement rates are based on.
11 I think Mr. Hall is correct.

12 BY MS. CATLER:

13 Q Mr. Bentley, have you for this testimony done a
14 complete technical analysis and study of the alternatives of
15 the Postal Service's cost-attribution methodology that
16 assumes less than 100 percent volume variability?

17 A No, I have not.

18 Q Have you for your testimony in R-2001 done a
19 complete technical analysis and study of the alternatives of
20 the Postal Service's cost-attribution methodology that
21 assumes less than 100 percent volume variability?

22 A If you're going to go case by case, --

23 Q No. I'm stopping after that one. I just want to
24 know that one.

25 A Because there was a case where this all started,

1 and the answer still is no. It's just not something I've
2 ever done.

3 Q Okay.

4 A I'll readily admit that, and I may have admitted
5 that in my testimony.

6 Q Well, if you haven't done that, then at page four,
7 line 21, how do you know that the Postal Service's
8 assumption has artificially reduced derived work-sharing
9 cost savings?

10 A Because you can compute the cost savings using
11 each methodology, and one is lower than the other.

12 Q And the one that's lower is obviously artificially
13 lower. Is that what you're saying?

14 A No. The one that's lower is the methodology that
15 the Commission has used for 30 years. It's the Postal
16 Service that's trying to change the methodology. It changes
17 because of what the Postal Service has done. The Commission
18 has always assumed that costs vary 100 percent with volume,
19 labor costs, that is, and I suspect they will continue to
20 keep that position.

21 Q On page 5 of your testimony, you state you have
22 started with the library reference day 84, and then made
23 some changes to that to come up with one of the alternative
24 cost-saving estimates you have presented in your testimony.
25 Does Ms. Robinson use this same library reference as the

1 basis for making her rate design decisions in USPS T-29?

2 A Of course, I wasn't there when Ms. Robinson filed
3 her testimony, but my guess is no, she didn't use that
4 library reference, that she used library reference 60.

5 Q Okay. Has any Postal Service sponsored library
6 reference J-84?

7 A I'm not a lawyer, and that's not something I can
8 really attest to.

9 Q You say on page 5, at line 15, that you have
10 derived work share savings yourself. When you say you
11 derive them, you calculated them yourself?

12 A Yes. As opposed to somebody else doing them for
13 me?

14 Q Yes.

15 A Yes, I did them myself.

16 Q Now to derive them, you had to understand where
17 all of Mr. Miller's numbers came from. Is that right? And
18 look at all of the Commission's old models.

19 A That's not correct.

20 Q No? You didn't have to look at the Commission's
21 old models?

22 A I just had to look at what they did in the last
23 case.

24 Q Okay. So the Commission's old model, not old
25 models.

1 A Yes.

2 Q Okay. You had to determine new numbers, whatever
3 has happened since the last case, right?

4 A The numbers were provided for me. But go ahead.

5 Q Okay. And then make changes to either Mr.
6 Miller's or the Commission's models.

7 A I made changes to follow the Commission's model.
8 And this case was very simple, just changes those cost
9 pools.

10 Q And then you did that to derive your changes?

11 A Well, those were the Commission's changes. I just
12 applied them to library reference 84, and that was it.

13 Q Okay. Now how long have you been examining Mr.
14 Miller's models in this case?

15 A Off and on since the case was filed.

16 Q And in fact, you have, of course, familiarity with
17 his models from the last rate case, too, right?

18 A Yes. That seemed to make it go a little faster.

19 Q How long has it taken you to determine which
20 changes needed to be made and to derive the numbers that you
21 have presented in your testimony?

22 A Which numbers would that be?

23 Q You presented a lot of numbers. The numbers.

24 A This is correct. Are we talking about the MMA
25 methodology or the R2000 methodology?

1 Q Well, you had to do the R2000 methodology, and you
2 had to do the MMA methodology. So I guess both of them
3 because you testified about both of them.

4 A Well, once I decided what I was going to do, the
5 R2000 methodology may have taken five minutes. The MMA
6 methodology, on the other hand, took a longer time, probably
7 three or four weeks, not full time. I had to get data from
8 the Postal Service. I had questions on methodologies. We
9 had to ask interrogatories. And every time we ask a
10 question, it takes three weeks to get an answer, or whatever
11 it is. And it is time consuming.

12 Q So you were working on this to prepare for filing
13 it as your case in chief.

14 A Well, I fully expected to file testimony with a
15 case in chief. And I think towards the middle of December,
16 I slowed down a little bit on that effort with respect to
17 MMA.

18 Q I'd like you to turn to page 10 at line 18.
19 Actually, it is probably 19.

20 MR. HALL: I'm sorry. Was that 9 or 10?

21 MS. CATTER: Page 10, line 19.

22 MR. HALL: Thank you.

23 BY MS. CATTER:

24 Q I'm going to ask you about the word "windfall."
25 You say that there is simply no justification for providing

1 the Postal Service, and indirectly the APWU members, such a
2 windfall. I guess what you're talking about is Mr. Riley's
3 suggestions of cross-methodology of only passing on
4 somewhere between 80 and 100 percent of the cost-avoided
5 savings, that you're saying that those rates would generate
6 what you characterize as a windfall.

7 MR. HALL: Would counsel care to identify the
8 costs avoided that she is speaking about? In other words,
9 whose methodology is she using?

10 MS. CATTER: I think Mr. Riley is very clear that
11 whichever methodology the Commission chooses --

12 MR. HALL: I'm sorry. I was just asking you what
13 methodology you were referring to in your question to my
14 witness, Mr. Bentley.

15 MS. CATTER: I wasn't referring to a methodology
16 in my question. I'm about to ask him about what he means by
17 the word "windfall." I'm not talking about methodology at
18 this point.

19 THE WITNESS: You did say cost savings, and I'm
20 going to presume you meant the Postal Service's estimate of
21 cost savings because that's what I'm talking about here.

22 BY MS. CATTER:

23 Q Yeah. I mean, you're obviously saying that if Mr.
24 Riley's rates were put into effect, that there would be more
25 revenue to the Postal Service, and that that would be a

1 windfall.

2 A Yes.

3 Q Okay. That's what we're talking about.

4 A And that refers to the figure in my table showing
5 that for the test year, the Postal Service would make as
6 much as \$1-1/2 billion profit.

7 Q Now if the Postal Service runs a net loss, even
8 with the increased revenues you're discussing, would you
9 consider that to be a windfall?

10 A If the Postal Service --

11 Q In fact --

12 A -- had a loss --

13 Q Yeah, a net loss.

14 A With these rates?

15 Q Yes.

16 A Would that be a windfall?

17 Q Yes.

18 A No.

19 Q Okay. Now I find it very interesting here, by the
20 way, that you refer to this as indirectly a windfall to the
21 APW members. Is it your impression the Postal Service is
22 paying the APW a finder's fee if as a result of its actions
23 the first class mail discounts are lowered? Where are the
24 members getting this windfall from?

25 A Well, the members cannot get paid any money that

1 the Postal Service doesn't have, so indirectly the money
2 that is paid by mailers to the Postal Service ends up in the
3 hands of the postal workers. So that's why indirectly this
4 is a windfall of \$1-1/2 billion to postal workers.

5 Q So do you consider the Postal Service having
6 enough cash on hand in, say, September of 2002 to pay the
7 APW's paychecks -- do you consider that a windfall to the
8 APW members?

9 A I'm sure that's a question I can't answer.

10 Q Now I have to admit that I certainly haven't had
11 the time in the six days since I got your testimony to go
12 through all of your models and work papers to begin to
13 understand the alternative derivation of all the numbers
14 you've generated for your two testimonies. But we'll talk
15 about this one today right now. But you make some general
16 claims on page 14 about things that Mr. Miller did that you
17 do not agree with.

18 Now first, let's see, you say that Mr. Miller used
19 the CRA costs developed under the Postal Services proposed
20 cost attribution methodology. Now this cost attribution
21 methodology is not just being used by Mr. Miller, is it?
22 This is an assumption that is being used throughout the
23 Postal Service case, isn't it?

24 A Yes.

25 Q And in fact, doesn't it appear in several

1 different witnesses' testimony?

2 A I probably does. It has appeared in several
3 different cases as well.

4 Q And more to the point, this was the cost
5 attribution methodology relied on by Ms. Robinson in her
6 rate design, wasn't it?

7 A She relied on the costs that were provided to her
8 by Mr. Miller.

9 Q Okay. Now let's see. Another thing you didn't
10 like about Miller is you say that Mr. Miller eliminated two
11 cost pools. By this, do you mean he took costs and totally
12 removed them from the costing sheets, or did he move them to
13 another category or take them into account in some other
14 way?

15 A He just defined them as nonwork sharing, fixed,
16 which means it's removed from the analysis, and it would
17 have no bearing in the estimation of cost savings.

18 Q So you mean he just removed them from the work
19 sharing calculations.

20 A Yes.

21 Q And you stuck them back in.

22 A I put them back in.

23 Q All right. Now can you try to tell me in English
24 -- now there are these two cost pools. Can you try to tell
25 me what these first one and then the other, these cost

1 pools, are, and why you think they belong in there?

2 A I can only give you what the Postal Service told
3 me what they were, and that's right in my testimony. The
4 reason why I think they belong in there is because
5 consistently work share letters cost less in these
6 particular cost pools than other letters.

7 Q Which cost pools are we talking about here?

8 A 1 Supp F1 and 1 Supp F4. That's a one, S-u-p-p
9 underlined, F1 and 1 S-u-p-p underlined, F4. And those are
10 on page 17, line 17, of my testimony.

11 Q Okay. Now what is 1 Supp underlined F1?

12 A Well, I can tell you that Mr. Miller claims that
13 they relate to union activities, quality of work log --
14 working life programs, travel time for training, and
15 administrative activities. I don't know what that means
16 myself. But I do know that if the letters are work shared,
17 the letter -- the cost in those cost pools are going to be
18 lower than they are if they are metered.

19 Q Okay. So what is 1 Supp underlined F4?

20 A I don't know anything more than what I've told
21 you.

22 Q All right. You know --

23 A No.

24 Q -- which is which, but all this stuff, union
25 activities, quality of working life programs, travel times

1 for training, and administrative activities, those are
2 things that you have put into your model as things that --
3 work share mailings or saving the Postal Service?

4 A Apparently they are. And it's really not so
5 important to know what each of the cost pools are. It's
6 what the impact is based on whether the letters are work
7 shared or not. And in my view, you should leave all the
8 cost pools in there because if there is no impact, there
9 won't be any differences. So it doesn't impact on the cost
10 savings anyway.

11 In this particular case, the Commission found that
12 there were cost savings. They left it in there, the model
13 in the last case, and I didn't see any reason to take it
14 out. I asked the Postal Service, are you sure that
15 differences are not caused by work sharing, and the answer
16 came back and really didn't explain that the differences
17 were not caused by work sharing. So I've left those cost
18 pools in.

19 Q Wow. I mean, a long, long time ago, I used to do
20 -- run regressions and things, and I never thought that I
21 could get away with going and putting in variables just
22 because they went in the right direction when I put them in
23 there. That's really neat.

24 A I'm not sure I said that, but --

25 Q Well, I mean, you don't know what they are, and

1 you don't know why they should be in there, but they have
2 the right result, so you think they should be in there.

3 A I don't characterize it as the right result. If
4 they were different and they were the other way, and there
5 was a reason for it, I would leave them in.

6 Q But they go the right way, and if --

7 A That's because they all go the right way.

8 Q -- there is a good reason to put them in, you're
9 going to keep them in.

10 A Every cost pool goes the right way, if you want to
11 put it that way. They're all lower for work share. And if
12 there are one or two that aren't, then, you know, they're
13 either in there or they're not. I certainly didn't just
14 look at the result.

15 Q It sure sounds that way when you don't know what
16 is in them. All right. Let's see.

17 A I tried to find out what was in them and tried to
18 get an explanation from the Postal Service. You saw the
19 explanation. It doesn't say that work sharing is not a
20 factor in why those costs are different.

21 Q Okay. All right. Let me go here. All right. We
22 were running through the different things you didn't like
23 about what Mr. Miller did, and we have just talked about
24 eliminating these two mystery cost pools. All right. Now
25 the third thing you say is he rejected the Commission's use

1 of nonautomated -- nonautomation presort letters as a proxy
2 for unit bulk metered mail delivery costs in favor of using
3 something you refer to as nonautomation mixed -- excuse me,
4 nonautomation machinable mixed AADC or -- oh, good Lord --
5 NAMMA, N-A-M-M-A, letters.

6 Now I am a little confused by this point.

7 A Well, this is what Mr. Miller did.

8 Q Well, you're saying that he rejected doing this.

9 A He rejected nonautomation and used this N-A-M-M-A
10 as the proxy for BMM, yes.

11 Q Okay. Aren't the nonautomation, machinable mix
12 AADC letters that he used a subset of the nonautomation
13 presorted letters that the Commission used previously?

14 A Yes. It's a small subset.

15 Q So isn't he really rejecting their use of that --
16 so he isn't really rejecting their use of that category. He
17 is simply refining the analysis, isn't he?

18 A I certainly wouldn't categorize it as refining the
19 analysis. He has totally changed the analysis. Well, I
20 talk about a lot of different problems with his methodology,
21 and we can go through it. But it's all in here, and the
22 reasons why.

23 Q I mean, isn't the real reason you don't like this
24 change shown on table 7 of your testimony -- isn't it really
25 because it reduces the work share savings from unit delivery

1 costs by almost 2 cents apiece?

2 A It certainly raised a flag as to what is going on,
3 and that certainly gave me an indication that this is
4 something I'd better look at.

5 Q Because this certainly is the largest of all the
6 changes that you are presenting on table 7, isn't it?

7 A Yes.

8 Q Okay.

9 A This had tremendous impact on the estimation of
10 work savings, cost savings.

11 Q Well, doesn't one of the main reasons for the 2
12 cent difference have to do with nonmachinable mail, a much
13 more expensive type of mail to deliver than machinable mail?
14 I mean, shouldn't the proxy only be machinable mail?

15 A I would agree with that, and I have used the
16 machinable mail proxy.

17 Q Well, so that -- and therefore, to refine delivery
18 costs, to remove nonmachinable mail from the calculations,
19 it seems very reasonable, rather than a rejection of the
20 entire concept by Mr. Miller.

21 A No. Mr. Miller used the work sharing category in
22 order to measure work sharing savings. That makes no sense
23 at all. He should use a nonwork sharing category in order
24 to measure delivery savings. That's what I've done.

25 Q All right. What did the Commission use last time?

1 Was it a work sharing or a nonwork sharing?

2 A They used nonautomation, presorted letters, a work
3 sharing category.

4 Q Okay. And Mr. Miller also used a work sharing
5 category this time, right?

6 A Did he use it? Yes, he did use a work sharing
7 category.

8 Q Just as the Commission did last time.

9 A The Commission used the entire sub -- the category
10 of nonautomation letters, yes. And part of the reason why
11 I've given my alternative here is, one, I don't believe that
12 Mr. Miller has an accurate measurement of either
13 nonautomation letters or NAMMA letters because of a mistake
14 in the delivery cost study, which I've uncovered. And, two,
15 the best recommendation is to use a nonwork sharing
16 category, and one with machineable letters as a proxy for
17 BMM. And that's metered mail letters. It makes perfect
18 sense.

19 So if the Commission is going to make a change
20 from what they did in the last case, that's what they should
21 do.

22 Q Now, of course, that is a point you would make in
23 your case in chief, if you were putting on a case in chief.
24 Is that right?

25 A I'm sitting here as a witness. I don't care about

1 whether this is a case in chief or a rebuttal or whatever
2 you want to call it. So I don't know how to answer that
3 question.

4 Q Yeah, I can tell that you don't care whether this
5 is case in chief or rebuttal or whatever you want to call
6 it. I understand that.

7 A It's not up to me to decide. This is the only
8 time I get a chance to present something to the Commission.

9 Q And you put it all in, right?

10 A I put it everything that I had to do in order to
11 rebut Mr. Riley.

12 Q Which turns out to be basically what you would
13 have put in to go and rebut Mr. Miller if you had put on
14 your case in chief.

15 A Mr. Riley relied on Mr. Miller. And all I'm
16 saying is Mr. Miller may not be correct, and here is an
17 alternative.

18 Q And so did the Postal Service, and you have all
19 signed on to the proposed stipulation and agreement.

20 Moving on to page 18 --

21 A So we're moving backwards now.

22 Q Oh, well, actually, I'm on to page 18. I don't
23 know.

24 A I was on 19.

25 Q I was actually looking at seven, which is on 15.

1 On page 18 you're talking about whether these cost pools you
2 mentioned earlier on page 14 should be included or not. You
3 make the statement, "Cost causation within the Postal
4 Service is very complex -- " I certainly would grant you
5 that " -- and not always obvious or consistent with one's
6 expectations." Again, I agree with that. "Without a
7 reasonable explanation that the differences are not caused
8 by work sharing, the cost pool should be included as part of
9 the work share cost saving analysis." Why?

10 A Because there are differences in the cost between
11 work share and nonwork share letters. And because there are
12 differences, you need to know what those differences are.
13 And if you can't explain that it is not because of the two
14 things that we know are happening here, you leave them in
15 the analysis.

16 Q What are the two things we know that are
17 happening?

18 A One is work shared letters and one is nonwork
19 shared letters. The nonwork shared letters cost more than
20 the work shared letters. So you can presume then that the
21 difference between the cost pools is because of the ability
22 for those letters to be work shared.

23 Q Now could it also be that there are some
24 differences in the nonwork shared letters versus the work
25 shared letters? Well, Valentine's Day, there are a lot of

1 red envelopes going through the Postal Service. Those are
2 hard to do. It has nothing to do with work sharing or
3 nonwork sharing.

4 A These are yearly figures. So --

5 Q All right. But what about --

6 A I don't see why that would be a --

7 Q First class -- well, then there is the green ones
8 for St. Patrick's Day, and the blue ones for July 4th.
9 Aren't there other things that are consistently different
10 between single piece and work shared mail that have nothing
11 to do with the fact that they are work shared?

12 A There are other factors that affect these costs.
13 We have kind of called them as exogenous factors through the
14 years. And one of the assumptions that we make when we do
15 this type of analysis is that the exogenous factors affect
16 all letters equally. In other words, it could be a totally
17 different local/nonlocal mix between presorted letters or
18 work shared letters and nonwork shared letters.

19 The implicit assumption by doing this analysis is
20 that the local/nonlocal mix is going to be fairly close.
21 It's kind of like the law of large numbers. We're talking
22 about 50 billion pieces here. And we have looked in the
23 past at these exogenous factors, and generally those are not
24 the cause of the differences because they are pretty
25 similar.

1 Q Well, what about -- are included in these
2 exogenous factors things like single piece first class mail
3 is more likely than work shared mail to have heavier, extra
4 ounces?

5 A That's a good point. And we have removed those
6 heavier letters or other shapes because we're only looking
7 at letter shapes. So that type of exogenous factor has been
8 removed from the analysis.

9 Q It's taken out of all of these pools?

10 A Yes. This is just letter shapes.

11 Q Well, it can be a letter and can be heavy and be
12 nonmachinable.

13 A Interesting point. We believe that weight has no
14 or very little impact on processing the letter, whether it
15 is machinable or nonmachinable. And I have testified on
16 that very subject before, trying to ask the Commission to
17 reduce the additional ounce rate for that very reason,
18 particularly between 2 ounces and 1 ounce. The Postal
19 Service uses the same productivities independent of weight.
20 So there is another reason why weight has a very low impact
21 on the cost of handling those letters.

22 Q Even when it gets to the point that it makes it so
23 that it is nonmachinable?

24 A Like a 4-ounce letter. There are very few 4-ounce
25 letters in there.

1 Q Certainly very few 4-ounce work shared letters.

2 A There are none. But there are very few 4-ounce
3 first class letters, single piece, and those letters might
4 be provided -- might be costs in these cost pools. But the
5 impact is so minimal, it has very little impact.

6 (Pause)

7 BY MS. CATTER:

8 Q Okay. Now it seems to me if there is some doubt
9 about whether the costs are correctly attributable to work
10 sharing, it would seem to make more sense for the Postal
11 Service to err on the side of not giving away more money
12 than is warranted than erring on the side of possibly giving
13 away more money that is unwarranted, and therefore that
14 those things should be -- cost pools should be left out
15 rather than put in. Why should you be putting them in when
16 there is no good reason to put them in?

17 A Well, first of all, they were in. Mr. Miller took
18 them out and did not provide, as far as I'm concerned, a
19 burden of proof as to why it should be taken out. The fact
20 is there are cost savings. We know that. So I don't
21 understand why we would take them out. You determine the
22 cost savings, and if you want to be conservative, then you
23 give a lower percentage of the discount back to the mailers.
24 But you certainly want to get the best estimate and most
25 accurate estimate of what those cost savings are.

1 Q On page 24 of your testimony, you mentioned the --
2 oh, here it is, at the top. You mentioned the move update
3 requirements. Is it your testimony that mailers would not
4 keep their mailing lists updated if the Postal Service did
5 not require them to do so?

6 A I don't know why I would ever want to testify to
7 something like that. What I do know is the Postal Service
8 itself said that a new update program saved a billion and a
9 half dollars a year in a study, which they paid for, and
10 that savings has been enjoyed by the Postal Service, and
11 none of it has been reflected in the discounts to mailers,
12 and they're the ones who have to pay to implement the move
13 update program.

14 Q Okay. Now don't the mailers derive significant
15 benefits, direct benefits, from having their mailing lists
16 as accurate as possible in the form of faster turnaround of
17 their invoices, their letters actually getting where they
18 sent them, to whom they sent them to?

19 A Well, there is a cost tradeoff to the mailers, and
20 I don't know the answer to that. In other words, there are
21 costs in order to perform the move update requirement. And
22 I believe that some of the mailers, particularly MMA mailers
23 feel that their lists are already up to date and accurate
24 and don't need to comply with move update because their
25 lists are as accurate or even more accurate than the Postal

1 Services.

2 Q That's great. Well, speaking of MMA members, your
3 counsel suggested that some of the questions I was going to
4 ask to Mr. Grider I should direct to you. And this move
5 update made me think of them. Sorry. You previously
6 testified in prior rate cases as part of your case in chief
7 that the work sharing calculations should be changed to
8 include some credit for the move update costs.

9 A I'm trying to remember exactly what I said. I did
10 quantify the savings in the last case, and I think it was
11 somewhere about a penny or a penny and a half. I did not
12 say included in the cost savings, but included in the
13 derivation or the determination of the discount.

14 Q What is the difference? You're going to take it
15 off the top?

16 A No. There is a difference. If it saved the
17 Postal Service 10 cents, and the Commission is going to
18 decide on a discount, and maybe they want to give an 8 cent
19 discount, but because of the move update program, they're
20 going to make it a 9 cent discount, that's where the
21 difference would be.

22 Q Yeah. You're just saying put it on top, give it
23 to them on top of it.

24 A That's not part of the cost savings. It's part of
25 the --

1 Q No. Cost avoidance and then something added on.

2 A It's the determination of a discount once you have
3 a cost savings. In other words, I did not add the penny and
4 a half to my determination or estimation of cost savings.

5 Q Of course. It's not saving costs to the Postal
6 Service.

7 A It saved them a billion and a half dollars. If
8 you look at whether the mail has gone through the move
9 update versus not gone through the move update program, and
10 you kind of extend where the costs were going to be for
11 returning and forwarding the mail, that's where the billion
12 and a half dollar savings comes from. I didn't make up that
13 number.

14 Q But you're not putting it in costs avoided. You
15 don't see that as costs avoided. You're just putting it on
16 top.

17 A It is costs avoided. But I have not put in my
18 analysis in either case as part of cost savings.

19 Q But you have previously testified that you believe
20 it should be part of the discount.

21 A It should be part of the analysis insofar as
22 determining the discount, yes.

23 Q Okay. Well, let's see. Mr. Grider also talked
24 about participation in Postal One. He thought he should get
25 credit for that. Have you testified or, to your knowledge,

1 has MMA sponsored any testimony in the past seeking to get
2 credit in one way, shape, or form for participating in
3 Postal One?

4 A I'm pretty sure Postal One is a new program, and
5 maybe one the Commission has never even heard of before. So
6 in answer to your question, there has been no request to
7 place any additional cost savings due to Postal One that I
8 know of.

9 Q What about -- he talks about sorts, bands,
10 palletizes, shrink wraps, and loads trucks at the Postal
11 Service's request. You asked that to be included?

12 A That should impact on platform operations, and as
13 such is included. This is a cost the Postal Service tried
14 to remove from consideration in the last case. The
15 Commission rejected that notion. So some of those costs are
16 included in the determination of cost savings, given the
17 methodology that we now are using.

18 Q Okay. So what about the next one he put on here.
19 He thought he should get credit for investing in Whittier
20 (phonetic) taggers. Have you testified in prior cases, or
21 to your knowledge has MMA sponsored testimony in prior
22 cases, seeking to include something related to the purchase
23 of or use of taggers as part of the calculation of the
24 discount for work share mail groups?

25 A The short answer is no. But this does have an

1 impact on transportation costs. We feel that there are
2 transportation cost savings that are not being reflected at
3 all in the cost savings analyses. So that's probably an
4 area that we would ask the Postal Service to look at in the
5 future.

6 Q What about inserters, state of the art inserters?

7 A That is probably related to mail piece design in
8 terms of what the mail piece looks like when it gets to the
9 Postal Service. I suppose if you have a poor inserter, and
10 there is bumps in the mail, it may not be machinable. So in
11 a sense that should be reflected in the analysis in terms of
12 whatever the cost savings turn out to be for having clean
13 mail.

14 Q But that's not a specific item that you have ever
15 included in your testimony or in any testimony sponsored by
16 MMA, to your knowledge --

17 A No.

18 Q -- as something that people should get credit for
19 towards discounts because they buy state of the art
20 inserters, is it?

21 A No.

22 MS. CATTER: Thank you. I have no further
23 questions at this point.

24 CHAIRMAN OMAS: Mr. Tidwell.

25 BY MR. TIDWELL:

1 Q Thank you, Mr. Chairman. Mr. Bentley, I'd like to
2 turn your attention to page 4 of your testimony. And down
3 toward the bottom of the page, lines 18 to 20 -- do you have
4 that?

5 A Yes.

6 Q There you refer to the Postal Service's proposals
7 to attribute costs on the assumption that labor costs do not
8 vary 100 percent with changes in volume. You refer to the
9 Postal Service's proposal to attribute the costs on the
10 assumption that labor costs don't vary 100 percent with
11 changes in volume. And I just want to ask, was the Postal
12 Service proposal based on an assumption, or was it based an
13 econometric exercise?

14 A In this particular case, I never looked at it, so
15 I don't know the answer to that. In R-97, I think the first
16 time it was proposed, I believe they had some -- I'm sure
17 they had some support, studies, analyses.

18 Q Do you generally equate econometric estimates as
19 assumptions?

20 A So you're concerned about my word "assumed"?
21 Maybe it should be an inherent assumption, or under the
22 premise.

23 Q So you're saying you don't know whether the Postal
24 Service just assumed, made an assumption about volume
25 variability, or it actually conducted --

1 A Oh, I'm quite certain the Postal Service justified
2 it in some way.

3 Q But you couldn't tell us whether it was by some
4 study or somebody just came up with a rock solid assumption.

5 A Well, I'm sure there was some kind of analysis and
6 testimony on the subject. It is so far removed from where I
7 am. And as you can see, there is a lot that I had to go
8 over. I did not go over that particular testimony.

9 Q I'd like to focus some on your delivery cost
10 methodology. Would you agree that there is presently no
11 separate rate category for delivered letters? That is,
12 there is no separation of rate categories for letters based
13 on whether they are delivered by a carrier or addressed to a
14 Post Office box?

15 A Yes. There is no separate category of letters for
16 each of those.

17 Q In designing rates for first class, single piece
18 letters, would you use the average costs per delivered
19 letter or the average cost per letter in developing the
20 rate?

21 A I would use the average cost for delivering the
22 letter in order to determine work share delivery cost
23 savings, which removes the impact of delivering to a P.O.
24 box, which should have no impact on that.

25 Q Would you agree that -- just a general question on

1 costing methodology. Would you agree that when calculating
2 a cost for any product that it is important not to mix up
3 the units in the calculation? I mean, for example, if you
4 were going to calculate the total cost per day of a rental
5 car, it would be wrong to add together the cost per week for
6 insurance and the cost per day for gasoline, wouldn't it? I
7 mean, wouldn't you want to add the cost per day for rental,
8 the cost per day for insurance, the cost per day for
9 gasoline in order to come up with an estimate of the daily
10 rate?

11 A You would want to add up all the costs that are
12 incurred, and then divide it by the number of days to get
13 the cost per day.

14 Q And so it would be a mistake to incorporate, let's
15 say, a weekly charge and throw that in the mix?

16 A You could amortize that. But, you know --

17 Q But you'd have to amortize it in order to come up
18 with an estimate of what the cost per day is.

19 A That's one way of looking at it. And if you were
20 to keep the car an extra day, what would the additional cost
21 be? It would be your variable cost per day.

22 Q Let's take a look at your page 6, table 2.

23 A I'm sorry. What page was that?

24 Q Six.

25 A Of the testimony?

1 Q Yes. Now that table compares the derived work
2 share cost savings using three methodologies. That is, the
3 Postal Service's presentation, the PRC R2000-1 methodology,
4 and the MMA methodology. Is that correct?

5 A Yes.

6 Q And is it correct to say that the USPS
7 presentation column gives the cost savings as calculated by
8 Postal Service witness Miller in USPS-T-22?

9 A Yes.

10 Q And it would be correct then to state that the
11 cost savings presented in the PRC-R2000-1 methodology column
12 are from library reference MMA J-3.

13 A Yes.

14 Q The sheet letters summary.

15 A Yes.

16 Q And the cost savings presented in the MMA
17 methodology column are from MMA library reference J1, page
18 1, the letter summary.

19 A Yes.

20 Q Do you have library reference J1 in front of you?

21 A I can get it.

22 Q Okay. I'd appreciate it if you could have that in
23 front of you as well as library reference J3.

24 A Okay.

25 Q Okay. You got J1? J1, page 1.

1 A Right.

2 Q There is a table, and the title for the table
3 indicates the table is the PRC version.

4 A Yes. That means PRC costing methodology.

5 Q Are you sure that that's a correct label. I'm
6 curious because the summary tables in library reference J1
7 and J3 are both labeled PRC version.

8 A And they both should be.

9 Q They both should be?

10 A They both are. The only difference between J1 and
11 J3 are delivery costs. J3 uses the Commission's methodology
12 and uses Dr. Shank's study without any corrections. And J1
13 corrects for the mistake that I uncovered, and then uses
14 metered mail as a proxy for bulk metered mail delivery
15 costs. So the only difference would be the delivery costs.

16 Q Okay. Let's focus on library reference J1. I
17 just want to make sure that I understand how the work
18 sharing related savings are calculated. So I'm going to try
19 to work backwards through the library reference.

20 Now to calculate the work sharing related savings
21 in column 5, you subject the rate category unit costs in
22 column 4 from the costs for what you call BMM letters in
23 column 4. Is that correct?

24 A Yes.

25 Q And the total work sharing related unit costs in

1 column 4 are calculated by adding the unit costs in columns
2 2 and 3.

3 A Yes.

4 Q And in column 3, the delivery work sharing related
5 unit costs are costs per delivered piece. Is that correct?

6 A In which library reference?

7 Q In MMA 1.

8 A Yes. And that comes from library reference J2.

9 Q Now in column 2, the mail processing work sharing
10 related unit costs are costs per piece. That is, the total
11 mail processing costs divided by total volume. Is that
12 correct?

13 A Yes.

14 Q So then that means that the total work sharing
15 related unit costs in column 4 are calculated by adding mail
16 processing costs per total pieces and delivery costs for
17 delivered piece. Is that correct?

18 A It's the average cost for delivering those pieces,
19 yes.

20 Q So I just want to make sure I understand. The
21 total in column 4 is calculated by adding mail processing
22 costs for total pieces and delivery costs for delivered
23 piece.

24 A Yes.

25 Q Then what are the units in the total work sharing

1 unit costs in column 4 that you are measuring then?

2 A Cents.

3 Q Cents per what?

4 A Per piece.

5 Q Per delivered piece?

6 A It's the sum of mail processing and delivery.

7 Q For total pieces, delivered pieces?

8 A Per piece, per piece that is delivered. That is
9 the sum of the mail processing and the delivery costs for
10 each piece that is delivered. And then when you make that
11 subtraction, you come up with the cost savings.

12 MR. TIDWELL: That's all we have, Mr. Chairman.

13 CHAIRMAN OMAS: Is there anyone else who would
14 like to cross this witness? If not, Mr. Hall, would you
15 like to -- need some time to review?

16 MR. HALL: Just another two minutes, if we may.

17 CHAIRMAN OMAS: Okay. We'll take a quick five.

18 (Recess)

19 MR. HALL: We decided we had no redirect
20 examination. So that would be it for Mr. Bentley.

21 CHAIRMAN OMAS: That's a welcome comment, Mr.
22 Hall. Thank you very much. Mr. Bentley, the Commission
23 appreciates your contribution to our record, and we thank
24 you, and you're now excused.

25 THE WITNESS: I'm sure I'll be back very soon,

1 though.

2 MR. HALL: I would add that in the spirit of
3 compromise -- I don't know if counsel for APWU noticed, but
4 we have simplified her motion to strike by not trying to
5 move into the record Mr. Bentley's work papers or his
6 library reference No. 4.

7 CHAIRMAN OMAS: Thank you.

8 (Witness excused)

9 CHAIRMAN OMAS: Mr Hart.

10 (Asides)

11 MS. CATTER: Next is --

12 CHAIRMAN OMAS: Mr. Hart.

13 MS. CATTER: No, no, Mr. Clifton.

14 CHAIRMAN OMAS: Oh, well, excuse me.

15 (Asides)

16 Whereupon,

17 JAMES A. CLIFTON

18 having been duly sworn, was called as a witness
19 and was examined and testified as follows:

20 CHAIRMAN OMAS: Be seated.

21 MR. HART: Are you ready for us, Mr. Chairman?

22 CHAIRMAN OMAS: Yes.

23 DIRECT EXAMINATION

24 BY MR. HART:

25 Q For the record, my name is Henry Hart,

Heritage Reporting Corporation
(202) 628-4888

1 representing National Association of Presorted Mailers.

2 Good afternoon, Mr. Clifton, Dr. Clifton. You have in front
3 of you a document entitled Surrebuttal Testimony of James A.
4 Clifton on Behalf of American Bankers Association and
5 National Association of Presorted Mailers, ABA, and NAPM-
6 SRT-1, dated February 20.

7 (The document referred to was
8 marked for identification as
9 Exhibit No. ABA & NAPM-SRT-1.)

10 Was that testimony prepared by you or under your
11 supervision?

12 A Yes, it was, Mr. Hart.

13 Q Have three errata pages been prepared by you since
14 the February 20 filing?

15 A Yes.

16 Q Could we just briefly explain each one? Is the
17 first one at the first page of the table a contents
18 romanette No. 3?

19 A Yes, it is.

20 Q Would you just briefly explain the change?

21 A We simply took out some extraneous underlining
22 that is part of the Internet world.

23 Q Just the underlining, not the text?

24 A Yes.

25 Q And at page 5, the second errata page, would you

1 explain that change?

2 A Given the length of time allotted to prepare all
3 these, we were all made able to catch some minor and
4 unsubstantive math errors after the filing of the testimony.
5 So the numbers in table 2 are small changes, from 7.92 to
6 7.9 and from 6.33 to 6.34.

7 MS. CATTER: I'm sorry. The testimony as
8 submitted was 7.9. Are you saying it should be changed to
9 7.92?

10 THE WITNESS: Yeah. So it should be changed to
11 7.92, and that changed to 6.33.

12 MS. CATTER: 6.33.

13 BY MR. HART:

14 Q And were both those errata changes filed
15 yesterday, Dr. Clifton, to your knowledge?

16 A Yes.

17 Q And lastly, if you would turn to page 30. Could
18 you explain the errata there?

19 A Yes. This one I just caught this morning, Mr.
20 Hart. That one is a substantive change, but just a typo.
21 In the original testimony, it was a figure of 22 billion.
22 The correct number is 46, or approximately 46 billion work
23 sharing pieces. Twenty-two refers to extra ounces.

24 MS. CATTER: Oh, what is a little 46 billion
25 versus 22 billion? That's significant.

1 BY MR. HART:

2 Q I'll overlook the commentary. Dr. Clifton, the
3 copy of the testimony you have in front of you, does it have
4 those three errata pages in it?

5 A Yes. It contains all those errata pages, Mr.
6 Hart.

7 Q If you were to provide orally today your
8 testimony, would it be the same as the testimony you have in
9 front of you?

10 A Yes.

11 Q With the permission of the chairman, I have two
12 copies of Dr. Clifton's testimony, ABA and NAPM-SRT-1, both
13 of which include those three errata pages marked as revised
14 with the date the errata was filed, and I would give them to
15 the court reporter and ask they be entered into evidence.

16 CHAIRMAN OMAS: As I noted earlier, there is a
17 pending motion to strike portions of this testimony filed by
18 APWU. Are there any other objections? Hearing none, I will
19 direct counsel to provide the reporter with two copies of
20 the corrected direct testimony of James A. Clifton. And
21 that testimony is received into evidence and will be
22 transcribed into the record at this point.

23 //

24 //

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. ABA & NAPM-SRT-1,
4 was received in evidence.)

5 //

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

Docket No. R2001-1

)
)
POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2001)
)
)

SURREBUTTAL TESTIMONY OF
JAMES A. CLIFTON
ON BEHALF OF
AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

February 20, 2002

EXECUTIVE SUMMARY

- APWU witness Riley opposes the settlement rates and discounts for First Class worksharing mail because he alleges they “pass through” more than 100% of avoided costs, but the weight of evidence using various measures of avoided costs indicates the settlement discounts pass through substantially less than 100% of avoided costs.
- Witness Riley uses USPS witness Miller’s “should cost” model estimates of cost avoidance, but he himself states a preference for use of actual CRA data in measuring cost avoidance, which data demonstrate forcefully that the settlement discounts are substantially less than 100% of avoided costs.
- Using basic and refined measures of cost avoidance relying on the Commission’s methodology from R2000-1, I also find cost avoidances associated with the proposed settlement rates pass through substantially less than 100% of costs avoided.
- Witness Riley’s proposed discounts would, contrary to his unsubstantiated assertions, send the wrong price signals to the market, while the proposed settlement rates and discounts, which are close to those supported by USPS rate witness Robinson, would send the correct price signals Witness Riley is concerned to send.
- Witness Riley’s “absolute dollar contribution” method for assigning mark-ups within the FCM letters subclass certainly would not send the correct price signals to the market that the witness intends, as my illustrative calculations using his method result in a 38 cent stamp and higher discounts than the settlement ones he rejects.
- Since both the CRA and PRC Methods of estimating cost avoidance show the settlement discounts on average passing through only about 80% of costs avoided, witness Riley with all the cost avoidance evidence before him should now be delighted at the settlement rates and discounts proposed as a way to help the Postal Service’s finances, because that pass through is near the lower bounds of his proposal to pass through between 80 to 100% of avoided costs.

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1 I. Autobiographical Sketch
2
3

4 My name is James A. Clifton. I am President of Washington Economics Consulting
5 Group, Inc., (WECG). The firm is devoted to regulatory and economic policy analysis,
6 litigation support, and industry analysis for housing and other sectors. In addition to my
7 responsibilities at WECG, I serve as Vice President of Finance and Economics for the
8 Manufactured Housing Institute.
9

10 My prior professional experience includes three years with the U.S. Chamber of
11 Commerce as a senior regulatory economist (1979 – 1983), three years as Republican
12 Staff Director of the House Budget Committee (1983 – 1986), and four years as President
13 of the Center for Industrial Competitiveness, a non-profit foundation (1986 – 1990). In
14 the consulting arena, I was principal associate at Nathan Associates from 1990 – 1991, an
15 academic affiliate of the Law and Economics Consulting Group from 1992 – 1995, and
16 an independent consultant from 1987 – 1990 and 1996 – 1997.
17

18 I have been visiting Associate Professor of Economics and Business at The Catholic
19 University of America, from 1992 through 1997. My other academic experience includes
20 Assistant Professor of Economics at the University of Maine-Orono (1975 – 1978), and
21 Visiting Professor at Cambridge University during 1977.
22

23 I received a B.A. in Economics from Cornell University in 1969 and a Ph.D. in
24 Economics from the University of Wisconsin-Madison in 1975. At the latter institution, I
25 was a Ford Foundation fellow. I have published occasional research in academic journals
26 including the Cambridge Journal of Economics, Contributions to Political Economy,
27 Business Economics, and the Journal of Economic Behavior and Organization. My early
28 work on the theory of competition was selected for inclusion in The New Palgrave, a
29 compendium of economic research drafted by the world's leading authorities.
30

31 Before this Commission, I have testified on five previous occasions. In Docket No. R90-
32 1, I presented direct testimony on behalf of McGraw-Hill, Inc. In the R94-1 rate case, I

1 presented rebuttal testimony on behalf of the American Bankers Association, and in
2 MC95-1 I presented direct testimony on behalf of the Greeting Card Association. In
3 R97-1, I presented direct testimony on behalf of the American Bankers Association,
4 National Association Presort Mailers, Newspaper Association of America, and Edison
5 Electric Institute. In R2000-1, I presented direct and supplemental testimony on behalf of
6 the American Bankers Association and the National Association of Presort Mailers.

7
8
9 II. Purpose and Scope of Testimony

10
11 This testimony is provided on behalf of the American Bankers Association (ABA) and
12 the National Association of Presort Mailers (NAPM), who along with numerous other
13 parties representing or interested in First Class Mailers, including, inter alia, the Postal
14 Service, the Major Mailers Association, the Office of the Consumer Advocate at the
15 Commission and the Greeting Card Association, support the settlement rates put forward
16 by the parties to the "Amended Stipulation and Agreement" dated December 26, 2001.
17 In support of such settlement, the purpose of this testimony is, to offer surrebuttal on
18 behalf of ABA and NAPM to the testimony by Michael Riley which was filed on behalf
19 the American Postal Workers Union (APWU-T-1), the only party to file testimony in
20 opposition to the settlement.

21
22 I supported Chairman Omas's early calls for settling this case, as did my clients, which
23 included ABA, NAPM and GCA during the settlement negotiations. In support of my
24 clients' desires to settle, I was actively involved in all public settlement conferences
25 organized by the Postal Service, and in most of the private conferences involving First
26 Class mailers which did lead to the settlement rates and terms to which my clients have
27 agreed.

28
29 In what follows I address below the two major points made by APWU witness Michael
30 Riley, namely (1) raising First Class worksharing rates by as much as 22%, in the case of
31 5 digit presort prebarcoded mail under the lower bound of Mr. Riley's proposed 80 to
32 100% pass through of USPS witness Miller's extremely narrow measure of cost
33 avoidance; (2) proposing in the future a uniform absolute mark-up in cents for First

1 Class discounted and non-discounted mail, a procedure that would have produced a 38
 2 cent single piece stamp in this case. I conclude my testimony by addressing a number of
 3 less central points made by the APWU witness that are clearly wrong.

4

5

6 III. Witness Riley's Proposed Discounts Beg the Question of What Is the Correct
 7 Method for Estimating Cost Avoidance

8

9 A. Witness Riley's Preferred Method of Cost Avoidance, Actual
 10 CRA Cost Differences, Are in Line With Settlement Discounts Even
 11 at the Lower Bounds of Witness Riley's 80 to 100% Pass Through
 12

13 Although APWU witness Riley relies in his testimony on the cost avoidance models of
 14 USPS witness Miller in setting his proposed rates for First Class workshared mail, he also
 15 argues at some length that these ““should cost” estimates which are provided to the
 16 Postal Rate Commission in rate cases” are inaccurate.¹ (APWU-T-1, p. 10, lines 1-2).
 17 Witness Riley then goes on to assert that as a result of the inaccuracy of the USPS cost
 18 models, it is better to rely on actual costs as measured by the Cost and Revenue Analysis.
 19 He states: “In this case, the CRA cost system will properly register the “actual” costs of
 20 the mail. . . .” (APWU-T-1, p. 10, lines 9-10). Of course, actual CRA cost differences
 21 register other types of inaccuracies in the USPS cost models as well, not just the one-
 22 sided issue of barcode readability of mailer-entered mail that APWU witness Riley
 23 dwells on. For example, the CRA should pick up costs associated with barcode un-
 24 readability from USPS applied barcodes.

25

26 Nonetheless, I agree with witness Riley's acknowledgement that, as concerns what costs
 27 avoided should be passed through in automation discounts, “I prefer more accurate costs
 28 to less accurate costs if they are available” (Cross Examination of APWU witness Riley
 29 Transcript Vol. 12 at page 4903, line18). I also agree with him that actual CRA data,

¹ Mr. Riley's belief is that actual CRA cost differences between discounted and non-discounted mail in First Class should reveal lower cost avoidances than the “special studies, which develop “should cost” estimates of cost avoided by pre-barcoding and pre-sorting” that are used in rate cases. (APWU-T-1, p. 10, lines 4-5). He believes that private sector mail processing facilities apply more un-readable barcodes than the USPS does, thus rendering “should cost” estimates of cost avoidance higher than the “actual” ones that should be revealed in actual CRA cost data.

1 though aggregated in the presort rate categories, has fewer actual and potential problems
2 than “should cost” estimates like USPS witness Miller’s cost models.

3
4 In fact, the recent as well as long term trend in the CRA data base shows clearly that cost
5 differences between First Class non-discounted mail and First Class discounted mail is
6 higher than the cost models Mr. Riley critiques, and is increasing over time, contradicting
7 another assertion made by the APWU witness that “[t]he costs avoided by pre-barcoding
8 and pre-sorting mail are declining over time”. (APWU-T-1, p. 2, lines 20-21.)

9
10 Since 1997, when MLOCR readability of single piece mail was starting to realize its
11 potential, the full cost difference between First Class discounted and nondiscounted mail
12 has increased, as indicated in Table One below.

<u>Table One</u>				
CRA Cost Differences Between Discounted and Non-Discounted First Class Mail				
(in cents)				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Cost Difference in:</u>				
Total unit attributable Cost	12.04	12.42	13.00	14.06
Mail processing direct Labor cost	5.84	5.83	6.28	6.49
Delivery cost	0.79	1.06	1.09	1.43

30

31 Source: ABA&NAPM-SRT-1 WP1, Table1, Table 2, & Table3.

32

33

34 Further, the cost differences between discounted and non-discounted First Class mail for
35 mail processing and delivery services combined, the two services that are “scored” for
36 purposes of setting discounts, have also increased in recent years.

Revised 2-25-02
ABA&NAPM-SRT-1

1 For the longer term, the trend line exercises in Figure 1, Figure 2, and Figure 3, make
2 clear that, in witness Riley's own terms, "CRA actual costs" indicate increasing cost
3 avoidance for the discounted mail. These trends are consistent with the increase in
4 discounts proposed by the Commission in recent cases, recommended by the Postal
5 Service in this case, and negotiated between the parties in the settlement of R2001-1.

6

7 Were I to adopt Mr. Riley's 80% - 100% pass through proposal for First Class
8 worksharing discounts using his preferred method of estimating cost avoidance, namely
9 the actual CRA cost differences, I could base discounts on the full CRA cost difference or
10 the CRA cost difference for mail processing and delivery costs between discounted and
11 non-discounted First Class mail. For BY2000, these would approximate discounts as
12 follows:

13

14 Table Two

15 Base Year 2000 Discounts Using Witness Riley's Preferred CRA Approach

16

(in cents)

17

Pass Through

18

CRA Approach

100%

80%

19

20

Full cost difference

14.06

11.25

21

MP + D

7.92

6.33

22

23

Source: ABA&NAPM_SRT-1 WP1, Table 1 & Table 4.

24

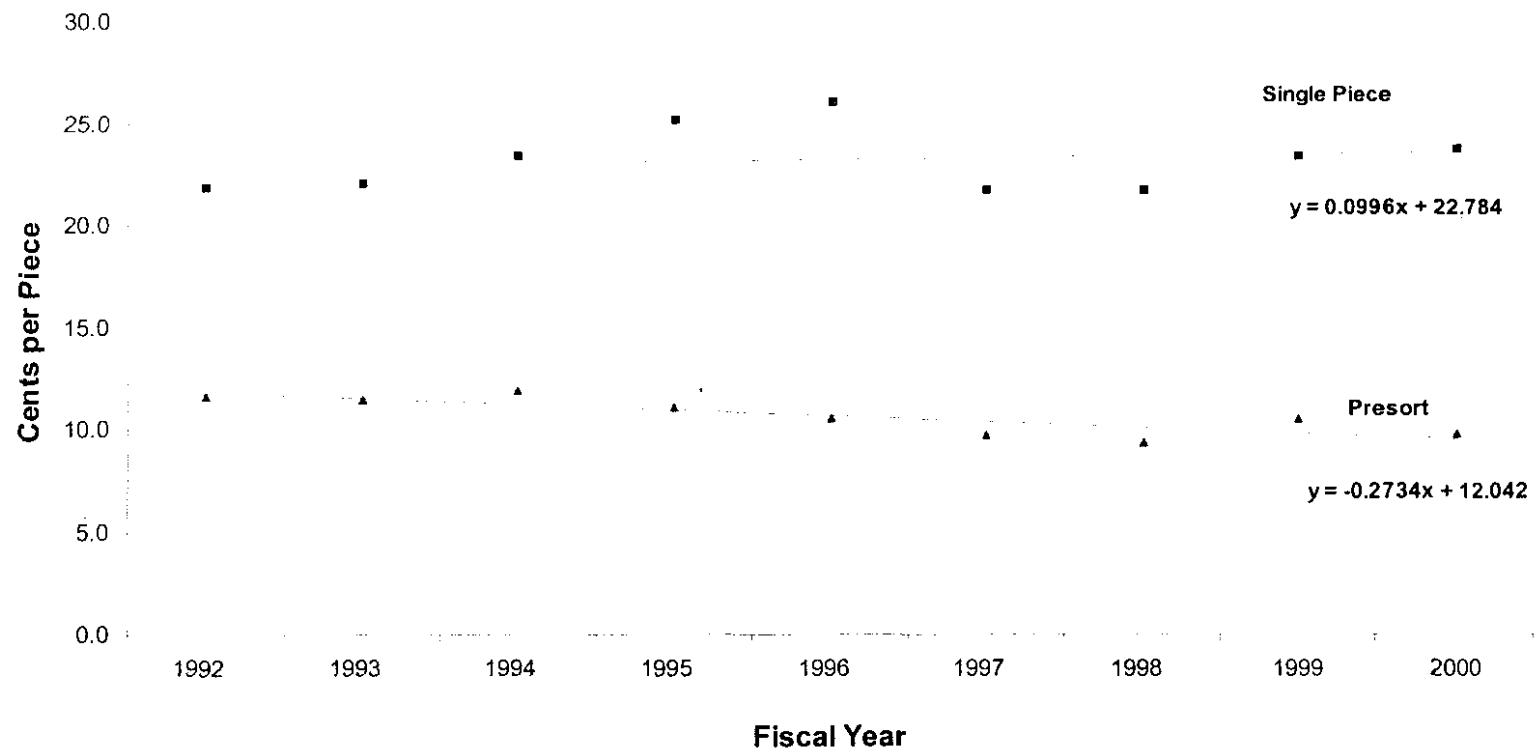
25

26 These CRA-based discounts are an average across all rate categories for presorted or
27 prebarcoded mail. Using the trends established in Figure 1 through Figure 3, TY2003
28 discounts utilizing APWU witness Riley's preferred actual CRA costs yields discounts as
29 shown in Table Three.

1

Figure 1

First-Class Total Unit Attributable Cost Differences are
Increasing Between Single Piece and Presort



2

Figure 2

First-Class Mail Processing Unit Attributable Cost Differences are
Increasing Between Single Piece and Presort
(Direct Labor, Cost Segment 3.1)

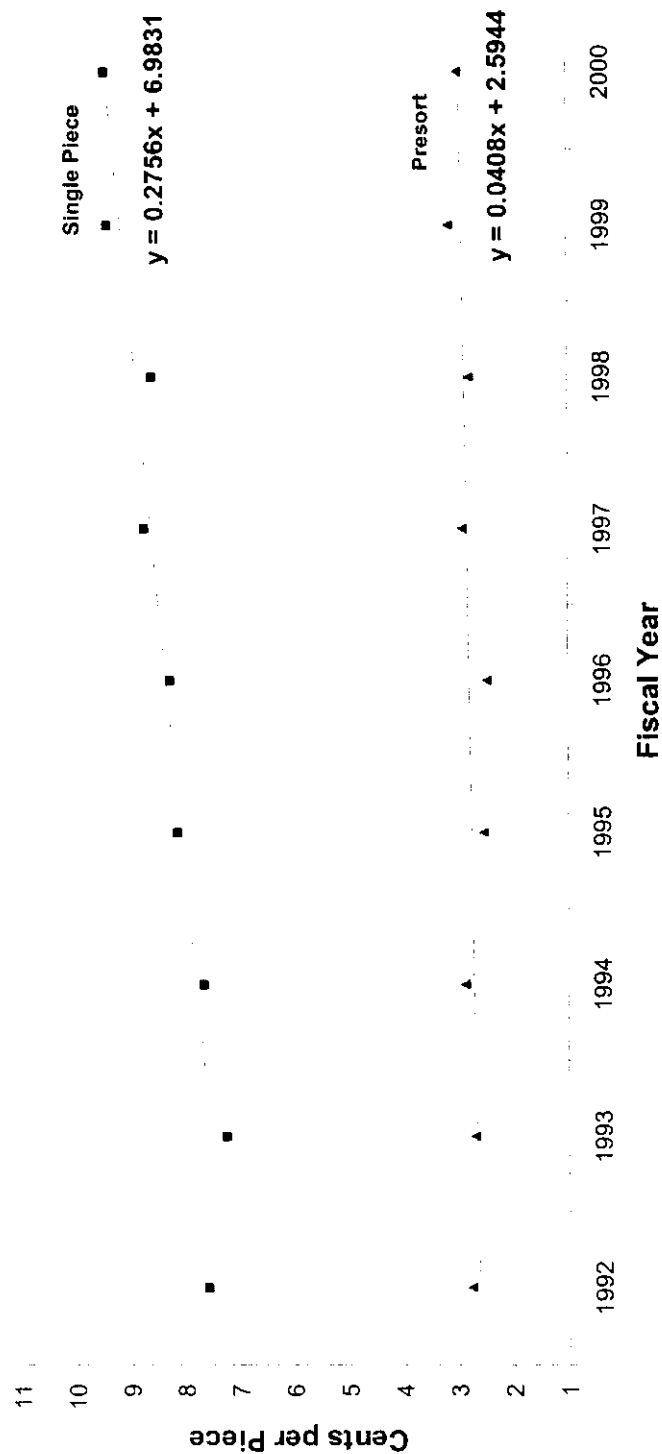


Figure 3

First-Class Delivery Unit Attributable Cost Differences are
Increasing Between Single Piece and Presort
(Cost Segments 6, 7 & 10)

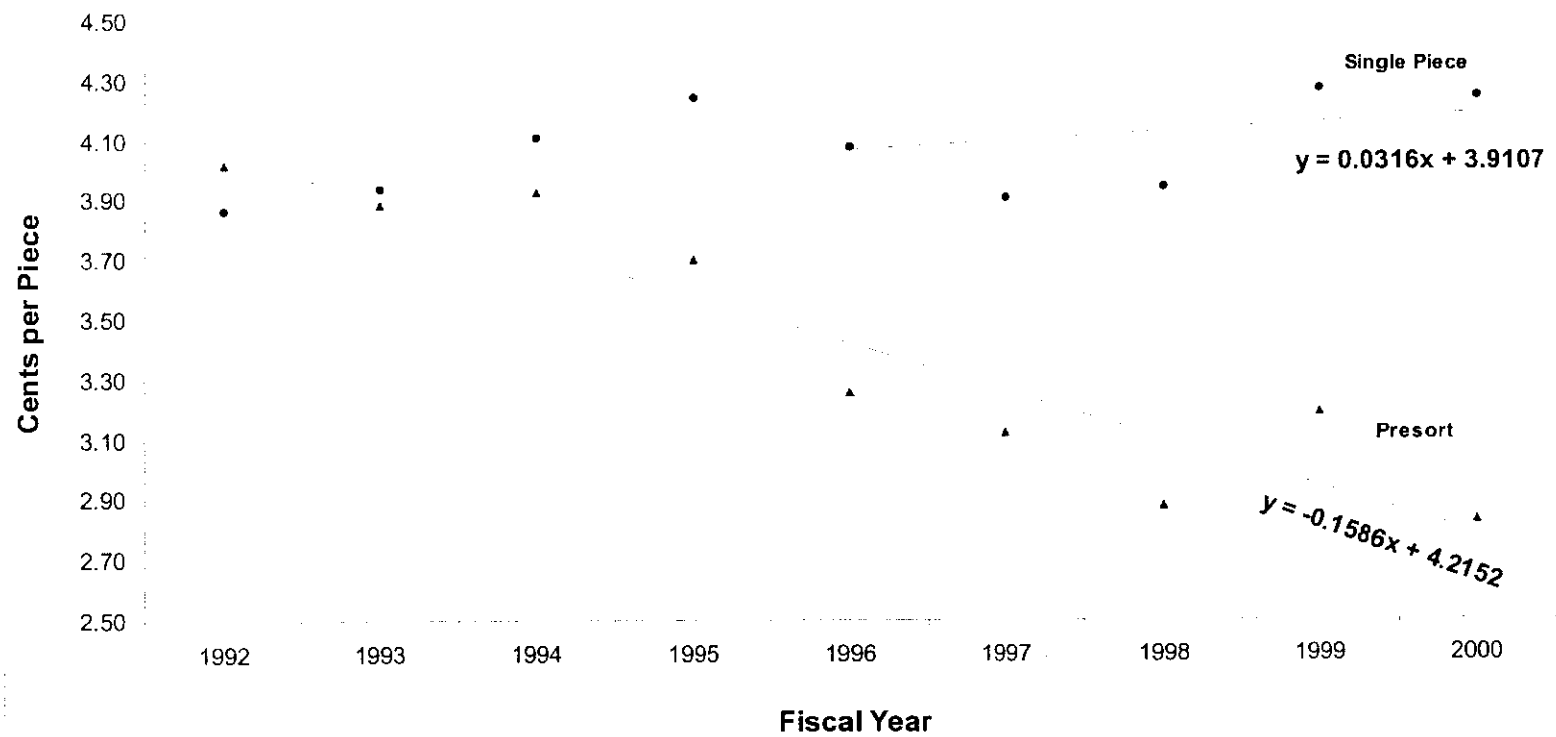


Table Three

Settlement Discounts Compared to TY2003 Discounts
 Using Witness Riley's Preferred Approach Versus
 Using USPS Witness Miller's "Should Cost"
 Model Estimates
 (in cents)

	<u>Pass Through</u>	
<u>CRA Approach</u>	<u>100%</u>	<u>80%</u>
Full cost difference	15.22	12.18
MP + D	9.18	7.35
<u>"Should Cost" Model</u>		
Automation mixed AADC	5.0	4.0
Automation AADC	5.9	4.7
3 Digit Presort	6.2	5.0
5 Digit Presort	7.4	5.9
<u>R2001-1 Settlement</u>		
Automation mixed AADC		6.1
Automation AADC		6.9
3 Digit Presort		7.8
5 Digit Presort		9.2

Source: ABA&NAPM-SRT-1 WP1, Table 1 & Table 4; USPS-T22;
 "Amended Stipulation and Agreement" dated December 26, 2001.

Several conclusions can be drawn from Table Three. First, using APWU witness Riley's preferred "CRA Approach" method for calculating cost avoidance, the settlement discounts are within the range of 80% of the MP + D cost difference between discounted and non-discounted mail. Second, the settlement discounts are well under 100% of cost avoidance so measured.

Third, the discounts proposed by witness Riley using witness Miller's "should cost" model of cost avoidance are well below the discounts that emerge from using Mr. Riley's preferred CRA Approach (i.e., actual CRA cost difference method of cost avoidance).

1 Fourth, witness Riley's proposed discounts are extreme low ball estimates of cost
2 avoidance whether one takes 80% or 100% of the CRA cost difference for mail
3 processing and delivery between discounted and non-discounted First Class mail.
4

5
6 B. The PRC's Methodology of Cost Avoidance is in Line with
7 Settlement Discounts Even at the Lower Bounds of Witness Riley's 80 to
8 100 % Pass Through
9

10 While APWU witness Riley's preferred measure of cost avoidance, actual CRA data, is
11 not the method he uses to estimate discounts in his testimony, the year 2000 CRA is a
12 matter of public record and may be taken judicial notice of by the Commission as it has
13 in past cases. It could have been used to estimate cost avoidances, as I have done above,
14 had witness Riley chosen to. Also available in R2001-1 are USPS Library References, in
15 particular USPS LR J 84, setting forth the PRC versions of USPS witness Miller's
16 modeled cost approach to cost avoidance. However, APWU witness Riley chose to
17 submit testimony to the Commission using the USPS methodology which, as is well
18 known, produces lower estimates of cost avoidance than the PRC methodology, and
19 which has been repeatedly rejected by the Commission.
20

21 In response to MMA/USPS-T22-76 in this case, the Postal Service confirmed that if the
22 Commission were to use the same PRC methodology to estimate cost savings from
23 worksharing in this case as it used in R2000-1, the TY2003 cost savings would be as
24 shown in Table Four.
25
26
27
28
29
30
31
32

Table Four

TY2003 Cost Avoidance Using PRC Methodology from R2000-1

(in cents)

<u>Rate Category</u>	<u>Cost Savings Using PRC R2000-1 Method</u>	<u>Settlement Discounts</u>	<u>Pass through Percentage</u>
Mixed AADC	7.994	6.1	76%
AADC	9.076	6.9	76%
3-Digit	9.439	7.8	83%
5-Digit	10.711	9.2	86%

Source: R2001-1, MMA/USPS-T22-76.

The pass through percentages that result from looking at the cost avoidances in Table Four relative to the settlement discounts should make APWU witness Riley very happy for they are close to the lower bounds of his 80% to 100% pass through proposal. These less than full pass throughs of cost avoidance do not help private sector businesses also feeling the financial effects of recession; they mainly help the Postal Service.

Using the PRC methodology of cost avoidance, APWU witness Riley's proposed discounts, which are even less than the settlement discounts, would pass through only 50% of mixed AADC cost savings from worksharing, 52% of AADC worksharing related savings, 53% of 3-Digit cost savings and 55% of 5-Digit worksharing related cost savings. This would be a radical departure from current policy with respect to worksharing. Paradoxically, such drastic cuts in discounts as the pass through percentages imply, would not improve the Service's financial performance, for a large percentage of mailers would find their own financial situation untenable and would choose not to prebarcode and presort. The USPS would be overwhelmed by such entry into the system and unable to process such volumes.

1 C. My Refined PRC Measure of Cost Avoidance is in Line with
2 Settlement Discounts Even at the Lower Bounds of Witness Riley's 80 to
3 100% Pass Through
4
5

6 I do not in this testimony attempt to address in any detail the latest evolution in USPS
7 witness Miller's Olympic pursuit of constricting the definition of mail processing cost
8 avoidance for First Class work shared letters to the point of reductio ad absurdum. I
9 understand Mr. Richard Bentley, the surrebuttal witness for the Major Mailers
10 Association will focus on Mr. Miller's methodology in R2001-1.

11
12 Much of the same criticisms I directed at Mr. Miller's testimony in R2000-1
13 (ABA&NAPM-T-1) apply equally here. Mr. Miller has created two more cost pools in
14 this case; we are now up to 54 in the effort to "better isolate" true cost avoidance from
15 worksharing. More stunning is his effort to break down the troublesome rate category of
16 nonautomation presort letters into eight gradations, an effort which allows Mr. Miller to
17 reduce by nearly two cents, compared to his R2000-1 method, the delivery unit costs for
18 that hard to find bulk metered mail. Does anyone really believe that the delivery costs for
19 bulk metered mail have actually changed by the difference between 5.942 cents (old
20 Miller method adopted by Commission in R2000-1) and 4.083 cents (new Miller
21 method), beyond what base year data and the roll forward models to test year tell us?

22
23 When last we left the issue of nonautomation presort in my Supplemental Testimony
24 (ABA&NAPM-ST-2) in R2000-1, we were getting absolutely bizarre results for cost
25 avoidance, as Commissioner LeBlanc noted at the time. One would have thought – drop
26 the nonautomation presort proxy for BMM delivery unit costs of Mr. Miller, go out and
27 measure BMM delivery costs directly if you can find any BMM.

28
29 Below, I present my refined version of cost avoidance using the PRC methodology. I
30 adopt the same assignments of cost pools that I did in modifying the USPS methodology
31 in R2000-1 in ABA&NAPM-T-1. Once again, the settlement discounts result in pass
32 through percentages in the range of lower bound 80% level advocated by Mr. Riley.

Table Five

Refined Cost Avoidance Measures Using PRC Method

(in cents)

<u>Rate Category</u>	<u>Worksharing Related Savings</u>	<u>Pass through Percentage at Settlement Discounts</u>
Mixed AADC	7.994	76%
AADC	9.147	75%
3-Digit	9.534	82%
5-Digit	10.887	85%

Source: ABA & NAPM, SRT-1, WP 1, Table 20.

IV. Witness Riley's "Absolute Dollar Contribution" Method for Assigning Institutional Costs Between Discounted and Non-Discounted Mail Would Produce a 38 Cent Stamp or Worse if Limited to FCM Letters

In his testimony, APWU witness Riley asserts that the entire cost coverage methodology used to set postal rates at the class and subclass levels for decades is wrong. He states: "The primary focus should be on the absolute contribution per piece, not the percentage markup." (APWU-T-1, p. 2, lines 17-19.) Witness Riley asserts "[t]his is especially true for discounts offered within a subclass once the target coverage has been established." He attempts to clarify his proposed mark-up method, stating "[s]aid differently, in the worst case the Postal Service should have the exact same absolute contribution from the mailing of one First-Class letter, regardless of how it is presented."

In his testimony, witness Riley does not extend his concept to other subclasses of mail earning discounts, notably Standard A letter mail. Nor does he attempt to quantify this policy proposal. Presumably, APWU witness Riley believes such a mark-up would produce lower single piece rates in First Class and higher worksharing rates, i.e. lower discounts. As with his preference for actual CRA cost data to measure cost avoidance,

1 however, witness Riley's mark-up proposal appears to generate just the opposite results
2 that he intends.

3
4 It is difficult to use Postal Service data to estimate rates emanating from Mr. Riley's
5 proposal. What follows can best be described as illustrative rates were the Riley "absolute
6 dollar contribution" mark-up proposal to be implemented.²

7
8 Table Six

9 TY2003 FCM Rates Using Uniform "Absolute Dollar Contribution" Mark-Up
10 (in cents)

11	12	13	14	15
	<u>Rate Category</u>	<u>Settlement Rates</u>	<u>Mark-Up</u>	<u>Implied Riley Rates From Uniform Mark-Up</u>
16	Single Piece	37.0	16.3	38.0
17				
18	Mixed AADC	30.9	16.3	26.9
19	AADC	30.1	16.3	26.6
20	3-Digit	29.2	16.3	26.3
21	5-Digit	27.8	16.3	25.8

22
23 Source: ABA&NAPM-SRT-1, WP 1, Table 18.

24
25
26 What is striking in Table Six about the application of APWU witness Riley's mark-up
27 proposal is that it results in higher single piece rates and lower workshared rates at a
28 uniform mark-up of 16.3 cents, the amount that distributes the FCM letter subclass
29 institutional costs of \$19.8 billions. The discounts implied are therefore greater under
30 witness Riley's "absolute dollar contribution" method than under the traditional cost
31 coverage method which he critiques. What accounts for these results?

² The data in Table Six as well as the data that follows are based on calculating volume variable costs that are explicit in some instances, such as single piece, and implicit in others, such as worksharing rate categories. We have to assume that the same cost coverage that applies to the presort category as a whole applies to each rate category. As a result, there is artificial compression between the worksharing rates because our method of backing out volume variable costs artificially reduces the differences in such costs between rate categories. In addition, it is harder to estimate any implied volume variable costs for flats. We do assume in this exercise that additional ounce rates and nonstandard rates stay the same as the settlement proposal, and we assume the same TY2003 revenue requirement as that in the USPS filing as revised.

1
2 First, the volume variable cost for FCM workshared letter mail is substantially below that
3 for single piece. Thus, we are adding a uniform 16.3 cents mark-up to a much lower cost
4 base, and the result is lower, not higher workshared rates. Second, the implied cost
5 coverage of First Class workshared mail is substantially greater at current and settlement
6 rates than it is for single piece mail. Thus, under the cost coverage mark-up convention in
7 the settlement rates (and discounts), each piece of workshared mail is already
8 contributing a disproportionate amount of the \$19.8 billion of USPS institutional costs
9 allocated to FCM letters and flats. APWU witness Riley's mark-up method actually
10 makes the mark-up per piece more proportionate than the current system, producing a 38
11 cent stamp and lower worksharing rates than those proposed in the settlement.

12
13 As with his discount proposals, APWU witness Riley's "absolute dollar contribution"
14 method for discounted and nondiscounted pieces within a subclass is targeted toward
15 First Class mail only. One could extend witness Riley's proposal to each piece of letter
16 mail, "regardless of how it is presented". (APWU-T-1, p. 12, line 17). Indeed, in his
17 response to MMA/APWU-T1-4, Mr. Riley provides a compelling reason why one should
18 apply his uniform mark-up across all mail if it is to be applied at all.

19
20 [I]t is important to note that in 1970 all letters in First-Class Mail were what is
21 now called single piece First-Class letters. . . . In addition, in 1970,
22 personalized information could not be sent in a Third-Class letter. Now
23 personalized information can be sent in a Standard Mail letter. For the single
24 piece First-Class letter rate category to maintain the volume it had in 1970 while
25 there has been a huge migration of business mail to other First Class letter rate
26 categories and to Standard Mail letters does not represent stagnation of single
27 piece First-Class letters.
28 (Response to MMA/APWU-T1-4)

29
30 The migration of First Class letters since 1970 into various worksharing rate categories in
31 Standard A and First-Class provides a good reason why Mr. Riley's mark-up proposal, if
32 applied at all, should be applied to all letter mail. Indeed, as the witness pointed out under
33 oral cross examination, he is not averse to extending his discount proposals beyond First-
34 Class, it was simply his client's desire to focus on First Class. (Cross Examination of

APWU witness Riley at Transcript Volume 12, p. 4921, line 8). I provide rate estimates below in Table Seven extending the “absolute dollar contribution” mark-up across all letter mail.

Table Seven

TY2003 FCM Rates Using Uniform “Absolute Dollar Contribution” Mark-Up
Across All Letter Mail
(in cents)

<u>Rate Category</u>	<u>Settlement Rates</u>	<u>Mark-Up</u>	<u>Implied Riley Rates From Uniform Mark-Up</u>
Single Piece	37.0	12.2	34.0
Mixed AADC	30.9	12.2	22.8
AADC	30.1	12.2	22.5
3-Digit	29.2	12.2	22.2
5-Digit	27.8	12.2	21.7

Source: ABA&NAPM-SRT-1, WP 1, Table 18.

What occurs among all the letter subclasses under APWU witness Riley’s uniform “absolute dollar contribution” mark-up method is that the institutional cost contribution for FCM letter mail drops from \$19.8 billion to \$14.8 billion, with most of the difference coming from Standard A mail. The uniform mark-up for the FCM letters subclass would as a result be less than it is in Table Six, namely, a 12.2 cents mark-up per piece.

One of the complications in trying to estimate the rate impact of APWU witness Riley’s uniform “absolute dollar contribution” mark-up method is the treatment of extra ounces. In the above two tables, I have included extra ounces in the calculation of pieces, though I have kept the extra ounce rate constant rather than adding the uniform mark-up for each extra ounce. One can interpret witness Riley’s proposal as being a uniform mark-up per piece of FCM letter mail regardless of how much it weighs. In Workpaper I, Table 19, I present the same information as in the two above tables. If limited to FCM, the Riley

1 proposal would lead to a 42 cent stamp. If extended to all letter mail it would lead to a 36
2 cent stamp and greater FCM workshare discounts than proposed in the settlement rates.

3
4 In summary, Mr. Riley's Absolute Dollar Contribution view of the world would result in
5 higher FCM single piece rates relative to FCM workshare rates, if limited to FCM, and if
6 applied across all letter mail would result in both lower FCM single piece and workshare
7 rates.

8
9
10 V. Witness Riley's Suggestions About a 36 Cent Stamp Contradict His Ostensible
11 Concern with the Postal Service's "Dire Financial Straits"

12
13 A. In the Context of Achieving Settlement, First Class Business Mailers
14 Supported Efforts at Achieving A 36 Cent Stamp, but Ultimately Made a
15 Substantial Concession in the Form of a 37 Cent Stamp
16

17 In many of my early settlement scenarios for First Class mailers under varying FY2002
18 volume loss assumptions below baseline, I thoroughly examined the possibility of a 36
19 cent stamp for this case. Both ABA and NAPM expressed support for one such model
20 run, which entailed setting new postal rates at a uniform across the board percentage
21 increase. This indicates that my clients were also interested in seeing whether, to quote
22 Mr. Riley "a lower First Class Stamp of 36 cents might be possible." (APWU-T-1, page
23 2, lines 3-4).

24
25 In the final analysis all of the settlement parties, including those most interested in the
26 single-piece FCM rate, such as the Office of the Consumer Advocate and the Greeting
27 Card Association, joined the settlement with a 37 cent stamp. They did so with the full
28 knowledge that First Class worksharing mailers had achieved a settlement based on
29 minor 0.2 cent adjustments to the rates for 3 digit and 5 digit prebarcoded, presorted letter
30 mail. Given the history of good faith settlement efforts by all First Class mailers in this
31 case, I hope that the Commission will see through and reject APWU witness Riley's
32 effort to drive a wedge between single piece and worksharing mailers in this case by
33 raising the question of a 36 cent stamp. The mailing public, the OCA and the Postal
34 Service all support this settlement.

1
2
3
4 B. Give Backs by FCM Business Mailers Since R2000-1 From July 1, 2001 Rate
5 Increases Were One Context Leading to Settlement Rates Negotiated
6

7 First Class mailers generally and worksharing mailers in particular began this rate case in
8 a substantially worse rate environment than the rates recommended by the Commission in
9 R2000-1. The letters subclass in First Class began this rate case in a substantially worse
10 rate environment than that afforded by the Postal Service to Standard A Mail following
11 the unanimous modification vote of the Board of Governors of the USPS to raise certain
12 rates above the Commission recommended level on July 1, 2001.

13
14 These rate "adjustments" as they were portrayed by the Postal Service in advertising the
15 increases had a superficial appearance of effecting equitable treatment between various
16 classes and subclasses. Worksharing discounts were cut by two tenths of a cent for First
17 Class automation letters, by two tenths of a cent for Standard A ECR letters and by three
18 tenths of a cent for Standard A Regular letters. However, the extra ounce rate for First
19 Class letter, was raised from the Commission recommended rate of 21 cents to 23 cents
20 for both single piece and workshared letters, a full two cents on nearly 22 billion extra
21 ounces.

22
23 The effect of these unilaterally imposed rate increases was to raise the cost coverage for
24 total First Class Mail from the Commission recommended 188.8% to 191.7%, a 2.9%
25 increase, while the increase for Standard A mail was only 1.3%, from 150% to 151.3%.
26 The revenue from FCM was increased by \$489 million (on a TY2001 basis) while the
27 revenue from Standard A was increased by only \$71 million. In other words, First Class
28 mailers began the settlement discussions with USPS in R2001-1 having just given USPS
29 on July 1 almost \$500 million more at annualized rates than any regulatory rate making
30 had mandated in R2000-1, and over \$400 million more than Standard A had contributed.

1 Of importance to the future of the rate making process, the First Class cost coverages
2 resulting from the Postal Service's July 1, 2001 modification rate increases completely
3 negated the lower cost coverages recommended by the Commission and restored the cost
4 coverages for First Class to the nearly identical levels requested by the USPS in its
5 (amended) rate filing. By July 1, 2001, for First Class Mail, the situation was as if there
6 had been no adjudicated process at all of the Postal Service's proposed cost coverages in
7 R2000-1.

8
9 This is also part of the context in which First Class mailers were requested by Chairman
10 Omas to sit down with the Postal Service and try to negotiate a settlement for a third rate
11 increase in one year.

12
13 C. The Major Context of Settlement in R2001-1: Added Revenue for USPS
14 Above Its Request Net of Settlement Discounts for FCM
15

16 APWU witness Riley asserts that the settlement rates between First Class worksharing
17 mailers and the Postal Service makes the Service's financial problem worse. He states:
18 "The Postal Service cannot afford to give away this revenue." (APWU-T-1, page 6, lines
19 14-15). What give away? Discounts for First Class business mail were increased
20 modestly in the settlement rates in return for worksharing mailers advancing hundreds of
21 millions of dollars more in extra revenue to the Postal Service than contemplated in the
22 case as filed. As was pointed out several times in settlement negotiations, it is not just the
23 Postal Service, which has had financial problems recently as a result the U. S. economy
24 being in recession since March of 2001. The businesses willing to give the Postal Service
25 all this extra revenue beyond the USPS request have also suffered financially from the
26 recession, and cannot afford to give away revenue either.

27
28 During Oral cross examination of APWU witness Riley, Commissioner Goldway made
29 the point that, while "the difference we're talking about is about \$100 million in revenue
30 from the initial proposal to the settlement that the APWU is focusing on", the Postal
31 Service under this settlement gets "about \$1.5 billion more than it might have gotten had
32 we gone through the rate case as it was originally filed and rates were to have gone into

1 effect at the end of September". (Tr., volume #12, 4946 at lines 1-2 and 4945 at lines 16-
2 18.)

3
4
5 VI. In General, APWU Witness Riley's "Policy-Oriented" Testimony Is
6 Little More than A Set of Unsubstantiated Assertions Which Are Clearly
7 Wrong
8

9 A. Witness Riley Does Not Understand the Context of the Settlement
10

11 In his direct testimony on behalf of the American Postal Workers Union (APWU),
12 Michael Riley has testified against the settlement rates proposed for First Class
13 workshared letter mail, and only against these particular discounted rates. Many of the
14 positions taken by Mr. Riley in his testimony make it clear he is not familiar with either
15 the fiscal realities of all parties underpinning the need for settlement or the detailed and
16 technically complex settlement negotiations which, after some months, did produce a
17 carefully balanced and near unanimous settlement of R2001-1. Below, I provide some
18 context for that settlement before turning to the direct discussion of Mr. Riley's "policy
19 proposals".
20

21 I believe strongly that settlement at the rates and terms in the Amended Stipulation and
22 Agreement of December 26, 2001, is the best way to resolve the R2001-1 rate case. The
23 DRI forecast used in the Postal Service's original filing was from May of 2001. It was
24 predicting a rebound in economic growth for the third quarter of 2001 from a sluggish
25 second quarter. It was becoming known by the time of the Postal Service's filing that that
26 particular DRI forecast (and most other macro forecasts) was way off the mark. I had
27 independent knowledge of the weakness of that particular DRI forecast as a result of
28 using it and similar ones in June and July to forecast housing dynamics on a quarterly
29 basis. By having to rely on what turned out to be a very poor forecast in its rate filing, the
30 USPS over-estimated volume and revenue for PFY 2002 and the test year of 2003 in the
31 case that it filed. This would have been true had the terrorist attacks of September 11th
32 and the follow on anthrax attacks which disrupted postal services and risked the lives of

1 postal employees and others never happened. These latter events further compounded an
2 already obsolete set of test year postal finances.

3

4 WECG ran a set of PFY 2002 volume scenarios to examine what the implications were
5 for our clients and for postal finances for the current fiscal year if USPS volumes, year
6 over year, were 2%, 4% and 6% less than the Postal Service projected in its rate case
7 filing. These scenarios were helpful to all First Class mail parties engaged in settlement
8 discussions in helping us focus on the immediate revenue needs of the USPS so that
9 postal services would not be further disrupted. While, of necessity, the settlement had to
10 be framed as advancing the implementation date of TY2003 recommended rates as they
11 emerged from the settlement, leading up to settlement nobody really knew what 2003 was
12 going to look like. We still don't, though indications are the U. S. macro economy should
13 be entering a recovery in the first half of this year which should strengthen considerably
14 in the second half, just as the Postal Service's fiscal 2003 commences. I believe our focus
15 on the current fiscal year needs helped in some small way to achieve settlement between
16 the parties.

17

18 In the scenarios run by WECG from the start of the settlement process, it was understood
19 that First Class mailers were proposing to help the USPS's worsening financial situation
20 by significantly advancing the date some level of higher rates were to take effect in 2002,
21 as early as January. The billions of dollars in extra revenue generated for USPS from
22 early implementation of higher rates was a hallmark of all settlement negotiations
23 between First Class mailers and the Service from the start. This advance of extra revenue
24 is the context in which First Class mailers asked for some consideration in the rates and
25 discounts upon which they ultimately settled.

26

27 B. Witness Riley Ignores a Decade's Worth of Mounting Evidence in Favor of a
28 Lower Extra Ounce Rate for Presort Mail, Which Has Demonstrably Lower Costs
29 Than Single Piece and a Stratospheric Cost Coverage

30

31 Over the past decade a number of parties have questioned whether the extra ounce rate

1 for First Class letter mail is cost based, or whether it is simply used by the Postal Service
2 as a revenue source largely unrelated to costs that can be used at the whim and fancy of
3 the service to generate substantial extra revenue beyond what its cost based rates can
4 achieve. My views on the extra ounce issue can be found in ABA&NAA&NAPM-T-1 in
5 R97-1 and ABA&NAPM-T-1 in R2000-1.

6

7 For business mailers in First Class, such as banks and the monthly statements they send
8 out including canceled checks, the extra ounce issue focuses on the first couple of extra
9 ounces. Mr. Riley's cost and discount arguments ignore this reality. Within this range, the
10 evidence from older cost studies and the latest one, as shown in Figure 4, indicates that
11 the extra ounce costs for First Class presort are materially lower than for single piece.
12 And, the cost studies for presort appear to be flawed, biased upwards in fact. As I have
13 stated in previous testimony, the extra ounce cost studies for Standard A letter mail
14 appear to offer a truer picture of what the extra ounce costs for First Class presort mail
15 are than the erratic extra ounce data for First Class presort.

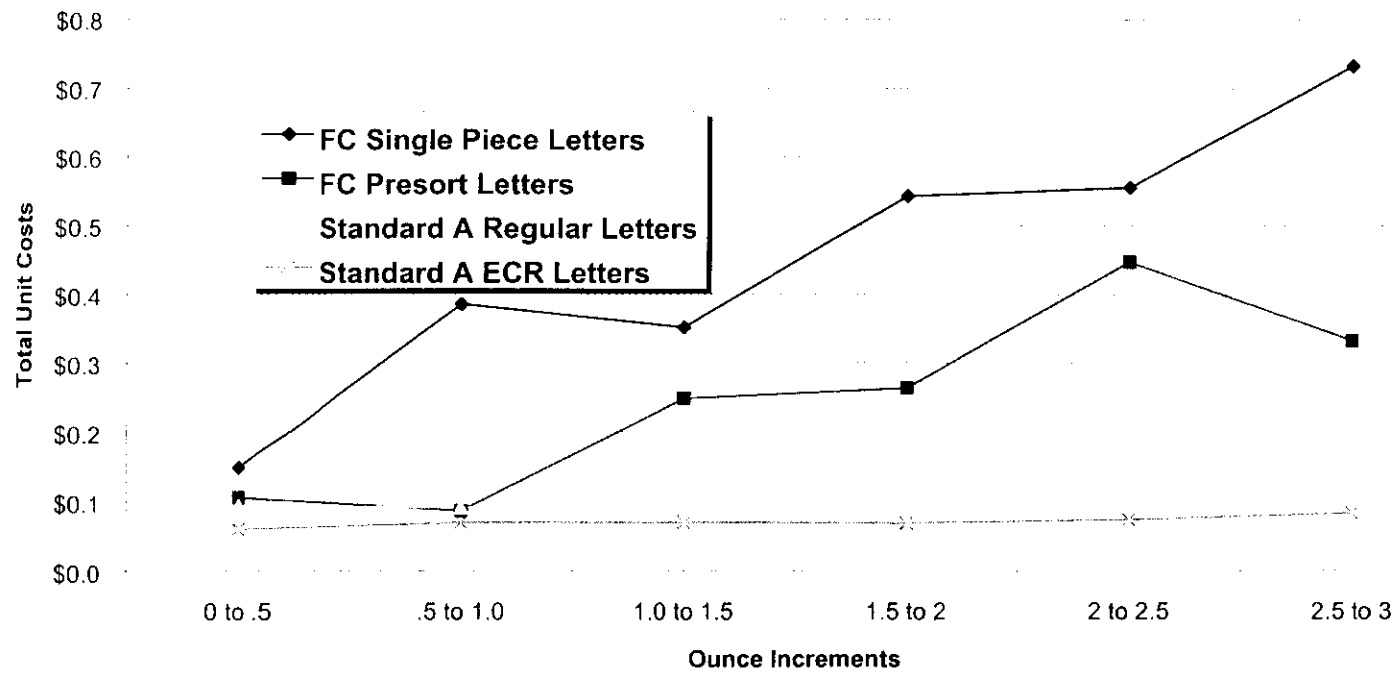
16

17 In the recent past the Commission has given some consideration to reducing the extra
18 ounce rate across all First Class letter mail on the basis of evidence submitted that mainly
19 focuses on extra ounce workshared letter mail. This has been one of the few avenues
20 available to the Commission, faced with the whole cent rounding convention for first
21 ounce, First Class single piece mail, that it can use to reduce the cost coverage for the
22 letters subclass of FCM. While I understand the Commission's goal, this is frankly not a
23 very good way of addressing the rate issues of single piece mailers.

24

25 On July 1, 2001, the Postal Service reversed the Commission's latest recommendation
26 order on the FCM extra ounce rate, and raised that rate for both single piece and
27 worksharing mailers from the PRC's recommended decision of 21 cents in R2000-1 to 23
28 cents. Given the cost evidence for presort extra ounces, this was an especially egregious
29 decision insofar as worksharing mailers were concerned, for their first ounce rates, unlike
30 the single piece rate, were also raised.

31

Figure 4**TY2003 Total Unit Costs By 0.5 Oz Weight Increments Up to 3 Oz**

1 The decision by the Postal Service in its R2001-1 rate case as filed, and in the settlement
2 rates supported by all First Class mail groups, not just worksharing mailers, has been to
3 recognize the lower extra ounce costs of First Class presort mail that I have addressed in
4 direct testimony in R97-1 and R2000-1.

5
6 C. Witness Riley's Claim Overstates and Exaggerates the Reality Concerning USPS
7 Finances Since Postal Reorganization
8

9 Witness Riley's testimony purports to focus on the immediate "dire financial straits" in
10 which the Postal Service finds itself since the onset of recession and the anthrax attacks
11 using the mail system to which hundreds of Postal Service employees were regrettably
12 exposed. However, as part of his evidence for slashing worksharing discounts in First
13 Class mail, Mr. Riley also cites an ostensible long run reality, namely that "the Postal
14 Service has never achieved a cumulative breakeven". (APWU-T-1, p. 7, lines 23-24). Mr.
15 Riley may be technically correct, but he seriously misses the forest for the trees.

16
17 Figure 5 and Figure 6 present, respectively, the long run comparison of USPS operating
18 revenues and operating costs and total revenue and total costs. Superimposed on these
19 cost and revenue comparisons is the annual level of Congressional appropriations for the
20 Postal Service. Since 1990, as seen in Figure 5, the Postal Service's operating revenue
21 has exceeded its operating expenses until very recently. Further, the dependence of the
22 Postal Service on tax dollars has fallen greatly to a de-minimus level relative to the
23 situation immediately following postal reorganization. For these reasons, Mr. Riley is
24 really too pessimistic in his financial assessment of USPS's long-term financial position.

25
26 As a recent GAO study points out, the major financial problem within USPS consists of
27 the growth of interest expense on deferred retirement liabilities. This has mushroomed
28 from about \$1.05 billion in 1990 to \$1.6 billion in 2001.³ This one charge explains why
29 the total revenue and total cost dynamics of the Service have not performed as
30 consistently in the black since 1990 as have total operating revenue and total operating

³ The deferred retirement cost of the Postal Service on which this interest charge is based was \$3 billion in 1975, \$21 billion in 1990 and \$32 billion in 2001.

1 cost dynamics. In this case, APWU witness Riley has mistaken a misleading tree as being
2 the entire forest!

3
4 D. The Strange World of APWU Witness Riley's Economics

5
6 Woven throughout APWU witness Riley's testimony is a variety of economic assertions
7 that appear so divorced from professional economic views that they simply cannot go left
8 unchallenged, especially since witness Riley presents himself, in part, as an expert
9 witness in economics, stating that he completed "all of the required course work for a
10 PHD [i]n economics." (APWU-T-1, p. 4, lines 24-25).

11
12 As is universally understood and acknowledged, except perhaps by Mr. Riley, USPS
13 operations and rate making are not based on the concept of maximizing the rate of profit
14 on equity, sales, capital or any other profit motive. USPS is a far more complex
15 organization than corporate America, and USPS rate-making is not the same as pricing by
16 Ford, Microsoft or, even UPS and FEDEX. Witness Riley goes to extremes in defending
17 his policy proposals to slash FCM worksharing discounts, thereby raising worksharing
18 rates, on the basis of using analogies between postal pricing and the requirements for
19 sound finances in the for-profit corporate world.⁴ Mr. Riley finally admits in response to
20 ABA&NAPM/APOWU-T1-12 that the Postal Service is "an independent establishment
21 of the executive branch of the Government of the United States governed by the Postal
22 Reorganization Act as amended, not a "for profit" environment." (Tr. Volume 12 at page
23 4893)

⁴For example, he speaks of slashing discounts in the context of "a typical for-profit organization" on page 7, line 10, of his testimony. He speaks of the "Postal Service needs to have more profits" on page 8, lines 4-5.

Figure 5
USPS Operating Revenue, Operating Expenses
And Revenue Foregone Appropriation

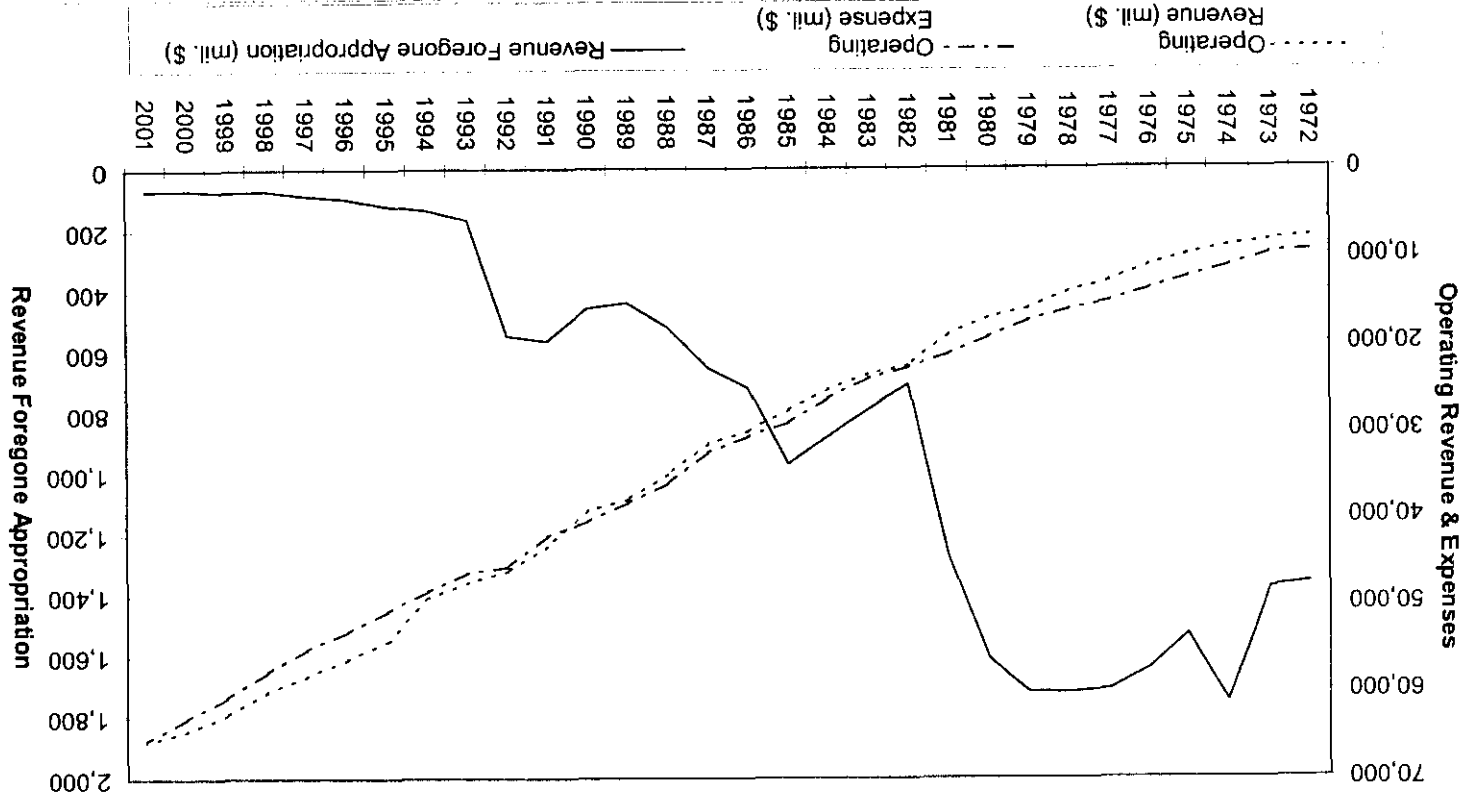
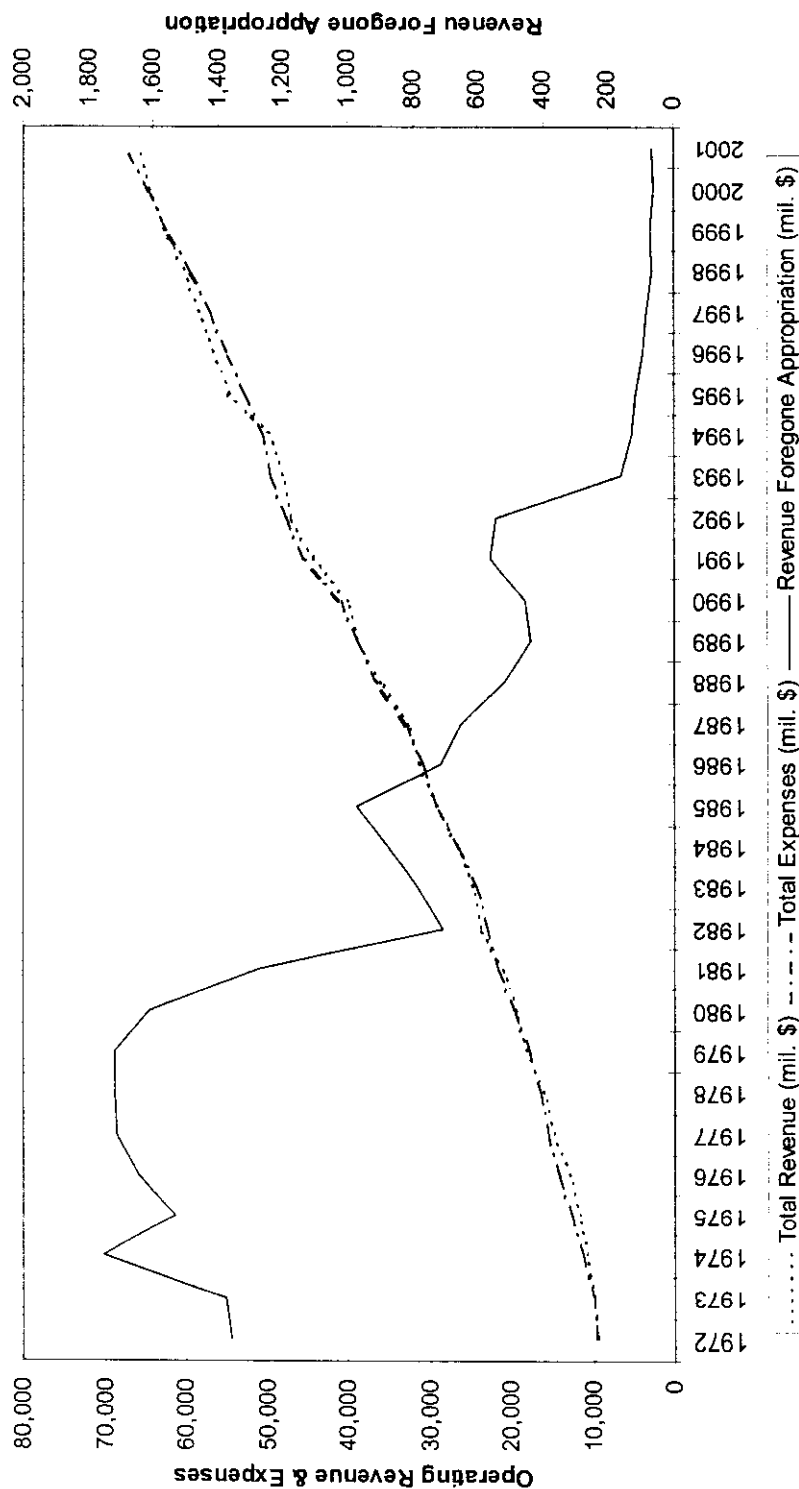


Figure 6
USPS Total Operating Revenue, Total Operating Expenses
And Revenue Foregone Appropriation



1 However, even the competitive for-profit world would never adopt the pricing strategy
2 Mr. Riley recommends: "I urge the Rate Commission, whenever it has a range of choices,
3 to pick the one that will generate the most revenue for the Postal Service." (APWU-T1,
4 page 9, lines 3-5). This statement so flies in the face of allocatively efficient pricing,
5 marginal cost pricing, or of regulatory ratemaking that in the broad sense is supposed to
6 replicate how a competitive market for the services it regulates would set prices, that I
7 find it incredulous. There is some evidence that the USPS may act (inefficiently) as a
8 volume maximizing institution, but its retrogression into a short run sales maximizing
9 institution would simply put the Service in greater financial jeopardy than it is now in.
10 Generating revenue is important to USPS's health but so to is controlling costs by
11 boosting productivity, downsizing when and where appropriate, and by other means.

12

13 While witness Riley in his testimony is full of for-profit corporate analogies as to how
14 postal finances should operate, he clearly believes that only the Postal Service should
15 realize a return on its investment in automation equipment. Evidently, the hundreds of
16 presort bureaus and major mailers who risk capital, unlike USPS, when they have
17 invested in automation equipment do not deserve a return on that investment. Or, they
18 only deserve a return if USPS earns one first. Like witness Riley's related comments
19 about the allegedly higher private sector costs associated with prebarcoding and
20 presorting the mail relative to USPS costs, Mr. Riley's view of who is entitled to a return
21 on automation investment suggests that he is completely out of touch with the highly
22 competitive market environment for mail processing services.

23

24 The discounts which Mr. Riley asserts are too high are simply a very imperfect proxy for
25 the absence of direct price competition between the private sector and the Postal Service
26 in automated mail processing, one in which monopoly power can unfortunately be
27 exercised by e.g., less than 100% pass-throughs. Based on my experience and
28 understanding of both private sector and USPS mail processing labor costs, which are
29 certainly substantially more than those of the private sector, I am certain that total mail
30 processing costs are lower in the private sector than they are within the Service up to the
31 stage of delivery point barcode sortation. Were mail processing an unbundled postal

1 service, especially now that single piece letter mail is highly machine readable, volume
2 would flow quickly to the private sector and out of the USPS, particularly if the USPS
3 could no longer maintain a monopoly on collection mail.

4
5 VII. Conclusion: Witness Riley's Assertion that His Proposed Discounts Send the
6 "Correct Price Signals" Begs Two Questions

7
8 A. What Foundations Has Witness Riley Established as an Expert Economist as
9 to What a "Correct Price Signal" Is?
10

11 In this case, discussions surrounding the "pass through" percentages of FCM worksharing
12 discounts vis a vis one (and only one) measure of cost avoidance began first with USPS
13 witness Maura Robinson's testimony as the First Class rate witness, and second with
14 APWU witness Riley's testimony. I have a very different perspective on this issue than
15 either of the above witnesses, which I present in conclusion after reviewing the
16 discussion to date on pass-throughs.

17
18 USPS witness Robinson, an economic expert on postal pricing and rate design, supported
19 the rates and discounts in her testimony under all of the Title 39, Section 3622 (b)
20 criteria, acknowledging that she was passing through more than USPS witness Miller's
21 newest variation on minimizing cost avoidances. Other rate design considerations were
22 evidently more important to witness Robinson than that one measure of cost avoidance,
23 and in making her decision on rates and discounts, witness Robinson was no doubt aware
24 that the Commission has repeatedly rejected the Miller/Hatfield method(s) in its opinions
25 and recommended decisions in favor of more balanced approaches. Witness Robinson
26 believes, as do I, that the settlement rates, which are close to her recommended rates,
27 send the correct price signals to the market for all First Class mailers and are fully in
28 accordance with all the Title 39, section 3622 (b) rate design criteria.

29
30 APWU witness Riley, who is not an economic expert on postal pricing and rate design or
31 even a practicing economist by professional experience, opposes witness Robinson's
32 proposed discounts (and the settlement discounts) because, and only because, they
33 appear to pass through more than 100% of cost avoidance based on one, and only one,
34 extremely narrow measure of cost avoidance that in my judgment is thoroughly broken,

1 namely witness Miller's measure. Neither his blind adherence to Miller's narrow measure
2 of cost avoidance, nor Riley's long ago course work in economics qualify witness Riley
3 to assert the kind of radical discount changes he proposes.
4

5 B. Beyond Pure Assertion, Where Is the Evidence That His Proposed Discounts
6 Would Send "Correct Price Signals"?
7

8 Using any other known means of measuring cost avoidance, whether actual CRA cost
9 differences which Mr. Riley himself appears to prefer over witness Miller's "should cost"
10 modeling or PRC volume variable cost assumptions, as I have shown, APWU witness
11 Riley cannot argue that the settlement proposed rates and discounts are even close to
12 100% of costs avoided, let alone more than 100%.
13

14 He cannot argue, therefore, that the proposed worksharing rates and discounts send the
15 wrong price signals to the market. On the contrary, it is witness Riley's proposed slashing
16 of the discounts recommended by USPS witness Robinson that would clearly send the
17 wrong price signals to the market: "Exit, exit, exit!" Any balanced view of cost avoidance
18 suggests that witness Riley's proposed discounts would pass through only about 50% of
19 avoided costs to the mailers doing all the mail processing work for 46 billion First Class
20 pieces.
21

22 APWU witness Riley's "absolute dollar contribution" method for allocating institutional
23 costs and setting rates and discounts would not, based on my illustrative calculations,
24 send anything like what Mr. Riley himself would view as correct pricing signals to the
25 market. It would raise single piece rates and increase worksharing discounts.
26

27 Much as the Commission's "Appendix F" methodology for estimating cost differences
28 and setting discounts was broken by the R94-1 rate case (See my rebuttal testimony in
29 that case, ABA-RT-1), the allegations made by both of the above witnesses that the USPS
30 proposed worksharing rates entail setting discounts above 100% of cost avoidance is little
31 more than a very large addition to the mounting evidence since the R97-1 rate case that
32 the Postal Service's entire modeled cost approach to estimating cost avoidances is
33 fundamentally, and irreparably, broken. Such a method, or anything resembling it, should

1 not even be allowed into evidence in the next rate case. It should die the same quiet death
2 that the Appendix F methodology did in R94-1. That said, I do note that the costs in the
3 record in this case, when subjected to a reasonable measure of cost avoidance as outlined
4 in my testimony, do support the settlement FCM workshare rates.

5

6 In this testimony, I have adopted largely the same, multi-faceted approach to measuring
7 costs avoided as I did in R94-1. In that case, the Commission recognized that no single
8 methodology has always dominated the measurement of costs avoided for the purposes of
9 setting discounts for as long as they have been set by the Commission. In that case, the
10 Commission also largely agreed with the reasons I set forth as to why its "Appendix F"
11 methodology had become unreliable as a basis for setting discounts. The reasons why the
12 Hatfield/Miller method of cost avoidance has become irreparably broken are different. I
13 cannot go into detail here as it is beyond the scope of my testimony. I simply ask the
14 Commission (and the Postal Service) to reflect on the following observations:

15

- 16 (1) By the time the Service's own rate witness, in essence, has to ignore her own
17 organization's method for determining avoided costs in admirably setting
18 those rates and discounts, it is obvious that the method has no practical value
19 anymore;
- 20 (2) By the time a recent former CFO of the Postal Service involved in R97-1
21 himself acknowledges greater trust in "actual CRA costs" than USPS "should
22 cost" models, it is obvious that the "should cost" method likely has little
23 internal USPS credibility;
- 24 (3) By the time a mission oriented USPS witness, trying to minimize costs
25 avoided, has to break out several more rate category model details from a
26 "nonautomation presort" category which exhibited absolutely bizarre behavior
27 in measured cost avoidance in the last rate case, it becomes a fundamentally
28 irresponsible exercise that comes dangerously close to exercising monopoly
29 power over the prices presort bureaus have to charge in the marketplace for
30 mail processing.

31

1 I renew my call from the last case, and I trust APWU witness Riley would agree with me,
2 that, short of unbundling the Service and pricing all mail processing services directly, the
3 Commission should recommend in this case that the Postal Service develop direct CRA
4 measurements by rate category of costs avoided in First Class Mail. It already does so for
5 some rate categories, and it can certainly do so for all the major volume drivers with the
6 CRA presort aggregate.

7

8

CERTIFICATE OF SERVICE

9

10 I hereby certify that I have this 20th day of February 2002, served the foregoing
11 document upon all participants of record in this proceeding in accordance with section 12
12 of the Rules of Practice.

13

14

15

16

17

18

19

Henry A. Hart
1301 K Street, N.W., East Tower
Suite 1100
Washington, DC 20005-3317

1 This now brings us to oral cross-examination. One
2 party has requested oral cross-examination, the American
3 Postal Workers Union, AFL-CIO. Is there anyone else? Is
4 there any other party that would like to cross-examine?

5 MR. TIDWELL: We might have some on follow-up, but
6 that would be it.

7 CHAIRMAN OMAS: There being none, Ms. Catter, will
8 you please begin.

9 CROSS-EXAMINATION

10 BY MS. CATTER:

11 Q Thank you, Mr. Chairman. Good afternoon, Mr.
12 Clifton. On page 2 of your testimony at line 33, you
13 characterized Mr. Riley's testimony as, quote, "Proposing in
14 the future a uniform absolute markup in cents for first
15 class discounted and nondiscounted mail."

16 Do you base that on Mr. Riley's stated view that a
17 piece of mail should provide the same contribution whether
18 -- regardless --irregardless of whether that specific piece
19 of mail is mailed single piece or is part of a work shared
20 mailing?

21 A It's hard to interpret what his testimony means
22 with regard to that, but yes, I would interpret it that way.

23 Q And wait a second. So you're saying that his
24 testimony that identical pieces of mail -- that if an
25 identical piece of mail is mailed in the single piece stream

1 versus mailed in the work shared stream should pay the same
2 markup. You're interpreting that as a uniform absolute
3 markup in cents?

4 A In cents, yes. That's my understanding of his
5 proposal.

6 Q So in your mind, those two statements are the
7 same?

8 A Witness Riley, so far as I can tell in his
9 testimony, has proposed, as against the cost coverage
10 methodology that is now used to mark up above all variable
11 costs a uniform absolute markup in cents.

12 Q I guess that's your understanding. All right. On
13 page 3, line 13, you state that although APW witness Riley
14 relies in his testimony on the cost avoidance models of USPS
15 witness Miller in setting his proposed rates for first class
16 work shared mail, he also argues at some length that these,
17 quote unquote "should cost" estimates, which are provided to
18 the Postal Rate Commission in rate cases are inaccurate.

19 So in other words, he is relying in his testimony
20 on the cost avoided calculated by Mr. Miller. Isn't that
21 right?

22 A He is relying on the cost avoidance model of
23 witness Miller, yes.

24 Q Yes. And witness Robinson, the Postal Service's
25 first class rate design witness in this case, also relied on

1 the same testimony from witness Miller, didn't she?

2 A She relied on the testimony of witness Miller,
3 along with a whole lot of other evidence and considerations
4 in arriving at her rate and discount recommendations.

5 Q Okay. All right. In your table 1, which is on
6 page 4, you seem to be comparing the difference between
7 attributable costs of two very aggregated types of first
8 class mail. Is that accurate?

9 A Yes.

10 Q Now what is the source of these data? Is it the
11 Postal Service?

12 A Yes, it is.

13 Q Now is this from the Postal Service's CRA report?

14 A Yes, it is.

15 Q Okay. Why did you start with 1997 on this table?

16 A Why do I start with 1997?

17 Q Yes.

18 A I start with 1997 because it's simply a recent
19 period. There was a rate case in R97. There was another
20 rate case in R2000. So it seems like a logical break point.

21 Q Okay. Did that have anything to do with the
22 Postal Service's changes in their cost and revenue
23 methodology in the '97 case?

24 A No, it did not.

25 Q Now does this comparison reflect the USPS's CRA

1 methodology?

2 A The current methodology? The current CRA
3 methodology?

4 Q Yes.

5 A Yes, it does.

6 Q So it does not reflect the Postal Rate
7 Commission's methodology.

8 A It depends on what year that you're talking about
9 insofar as the Postal Rate Commission's methodology goes.
10 I make reference to my rebuttal testimony in R94 in this
11 testimony, where it is clear that over the years the
12 Commission has relied on a variety of methodologies,
13 including consideration of the CRA.

14 Q Well, your R94 testimony is not reflected in table
15 1, is it?

16 A My R94 testimony is not reflected in table 1. I
17 refer to the R94 testimony in this testimony.

18 Q Okay. Now you have something like 23 worksheets
19 in your work papers. Is that right?

20 A I haven't counted, but subject to check.

21 Q Somewhere in that vicinity?

22 A Somewhere in that vicinity.

23 Q All right. And I'll admit, I haven't had time to
24 look at those in the amount of time since I have received
25 your testimony. So perhaps you could answer another

1 question about table 1.

2 A Mm-hmm.

3 Q Now you have mail processing, direct labor costs,
4 and deliver cost lines in these tables. Does the Postal
5 Service report these numbers just like this in their report?
6 Or did you use their numbers to calculate these numbers by
7 adding, subtracting, dividing, or doing something to get
8 these numbers?

9 A No. Mail processing, direct labor costs, is cost
10 segment 3.1. And delivery costs is cost segments -- if
11 memory serves right -- 6, 7, and 10.

12 Q And so for the delivery costs, you added up 6, 7,
13 and 10, and for the mail processing, direct labor costs, you
14 just used 3.1.

15 A Yes, ma'am.

16 Q And if I went to the CRA cost segment where they
17 have 3.1, I'd find that number.

18 A Yes.

19 Q Neat. Okay. Now in table 2 --

20 A What you'll find is aggregate costs. You have to
21 divide by volume to arrive at these unit cost numbers.

22 Q Okay. And so you divide -- what are you dividing
23 here by?

24 A We're simply --

25 Q Total -- which volume numbers are you dividing by?

1 A We're simply dividing by the appropriate volume
2 numbers. If we're talking about a single piece, we're
3 dividing by those volumes. If we're talking about work
4 sharing, we're dividing by those volumes. And all I report
5 in this table are the unit cost differences between what
6 witness Riley described as a discounted versus nondiscounted
7 mail.

8 Q So wait a second. So you calculated this -- you
9 took the mail processing, direct labor costs.

10 A Mm-hmm.

11 Q You added those up. Are you able to add them up
12 for work sharing and then add them up for nonwork sharing?

13 A We don't really have to add them up. They are
14 presented at those aggregate levels, discounted and
15 nondiscounted mail. In the CRA, it is referred to a single
16 piece and then presort.

17 Q Okay. So then you -- so you had those two numbers
18 for each year.

19 A Right.

20 Q And you had the volume for each year.

21 A Right.

22 Q And so you divided it.

23 A Right. And the difference between those two are
24 the numbers in table 1.

25 Q Okay. Neat. All right. Moving on to table 2, in

1 table 2, you used the numbers you've calculated in table 1,
2 and then say apply Mr. Riley's 100 percent and 80 percent
3 boundaries to those numbers. Is that right?

4 A Yes.

5 Q Okay. Now what year is this? Is this only for
6 2000?

7 A The table is labeled base year 2000, and that's
8 what it is, a TR2000, which is the base year for this rate
9 case.

10 Q All right. Now this is your theory about how if
11 Mr. Riley had actually provided numbers of what he was
12 talking about, that this would be -- Mr. Riley didn't
13 present any of this stuff in his testimony, did he?

14 A Mr. Riley did not present any CRA numbers in his
15 testimony. He simply expressed a strong preference for the
16 use of CRA at what he refers to as actual CRA data over
17 witness Miller's model cost approach.

18 Q Well, when he produced numbers, the rates he
19 proposed, he proposed them based on Mr. Miller's figures,
20 didn't he?

21 A Yes. I think we already established that here.

22 Q Right. He may have said that for certain
23 purposes, like CRA numbers, but when it came to proposing
24 rates, he didn't use the CRA numbers for that.

25 A Oh, no. He was very specific, ma'am. He said he

1 would prefer the use of actual CRA numbers in setting
2 discounts. And what we have done here is to provide him
3 with those numbers.

4 Q Okay. Now did Mr. Riley in his testimony propose
5 using your methodology to calculate cost avoided in this
6 case?

7 A No, he did not.

8 Q Now were you present during the oral testimony of
9 Mr. Riley?

10 A No, I was not. I have the transcript, but I was
11 not present.

12 Q And you read the transcript?

13 A I read portions of the transcript.

14 Q Okay. Did you read the portion of the transcript
15 where Mr. Riley stated that the numbers you're using here
16 are relevant to his testimony?

17 A Which numbers?

18 Q The numbers you're using here, these CRA numbers.
19 I guess you must have missed that. We'll point that out in
20 the brief. All right. Now these numbers you're using in
21 tables 1, 2, and 3, and a couple of figures, are these all
22 single-piece, first class letters, flats, and sealed parcels
23 compared to presorted letters, flats, and sealed parcels?
24 Is that correct?

25 A Yes.

1 Q Okay. So these two mail groupings have very
2 different mixes of mail in them, don't they?

3 A Their volumes for the nonletter mail are so mail
4 that they don't make material differences, ma'am.

5 Q All right. So you're saying as far as flats and
6 parcels, because there really are no flats and parcels in
7 the presorted stuff, is there?

8 A No.

9 Q And so -- but there are flats and parcels in the
10 first class. But you're saying they don't really make a big
11 difference.

12 A No. The volume mix issue has always been an issue
13 with data as the Postal Service presents it. But for all
14 practical purposes, when you're in these proceedings, the
15 volumes of sealed parcels are so small relative to letters
16 that they don't materially alter results.

17 Q Okay. So that's something that we don't have to
18 worry about. Well, what about that the heavier pieces are
19 all in the single piece. They're not in the presorted,
20 prebarcoded, the discount work share mail?

21 A There is a lot of extra ounces in work sharing
22 mail.

23 Q Right. But it's all extra first ounce, and a few
24 of them extra second ounce -- I mean extra second ounce and
25 extra third ounce, but none of the stuff going up to 10, 11,

1 12 extra ounces.

2 A That's correct.

3 Q And there is that in the single piece mail. Some
4 8, 9 percent of single piece has significant -- has weights
5 over -- you know, more than just one additional ounce.
6 Isn't that right?

7 A Well, I do not know. I do not know the
8 percentages in single piece. There is more heavy weight
9 mail going out several ounce in single piece than there is
10 in presort, yes.

11 Q Okay. But we don't have to worry about that
12 distinction when we're comparing these things. Is that
13 right?

14 A Well, we do later on in the testimony, but not in
15 these basic CRA cost differences.

16 Q Okay. Now what about the fact that sort of all
17 the handwritten pieces, all of them are in the single piece.
18 There isn't any handwritten pieces in the discounted mail
19 stream, is there?

20 A Oh, I sometimes get handwritten -- you know,
21 clever handwritten advertising pieces in my --

22 Q Yeah, but those are standard. We're not talking
23 standard mail here. We're talking first class mail here
24 today.

25 A That was advertising stuffers with, you know,

1 handwriting on them in first class mail. But I don't
2 disagree with what you're saying.

3 Q Okay. And I don't think you can get away with
4 having dark colored envelopes like red for Valentine's Day
5 or anything like that in the discounted mail stream, can
6 you? And there, of course, are a few of them in the single
7 piece mail stream, aren't there?

8 A You probably cannot get away with that, but just
9 for the record, I've also represented the Greeting Card
10 Association numerous times over the years. They have worked
11 hard to conform with the Postal Service's automation
12 requirements. And as you are probably aware, different
13 types of automation equipment have gotten to the point where
14 they can read colors better than some other types. Sieman's
15 (phonetic) is one of them. I forget whether Sieman's is
16 better or worse at reading red or green, but --

17 Q I have noticed over the years that when I go to
18 get cards at certain seasons of the year, that -- certainly,
19 for instance, at St. Patrick's Day, the green of the
20 envelopes is getting lighter each year. I have noticed that
21 one, though the Valentine reds, they're still using a real
22 bright red for that.

23 But anyway, but those colored envelopes, those are
24 all in the single piece stream. None of them are in the
25 discount mail stream, are they?

1 A If you're talking about the discount stream
2 including standard, I'd think the answer would be no.

3 Q I'm not talking about standard. We're only
4 talking about first class here.

5 A I think that's probably right.

6 Q Okay. Now over the time period shown on your
7 tables and figures, there may be mail moving from
8 nondiscounted into discounted mail, too. Isn't that
9 possible?

10 A Yes.

11 Q So the mix of mail is changing. Could that alone
12 cause some of the average costs to change?

13 A If you take a long enough time period, yes. But I
14 think year to year not very much. The variation that you
15 see in the numbers would be due to changes in mailments.
16 But certainly, if you wanted to look at one year and five
17 years later and compare the first to the fifth year, yeah,
18 that sure.

19 Q Okay. Now the presort group, that also has a mix
20 difference over time, does it not?

21 A Not as much as the Postal Service would like. I
22 think it's become fairly stable.

23 Q Okay. During the '97 to 2000 time period, there
24 has been a change toward larger proportion of five-digit,
25 prebarcoded, hasn't there?

1 A A little bit, yeah.

2 Q And also the share of presorted but nonbarcoded
3 mail has been reduced over this time period, too, has it
4 not?

5 A Starting from an already low level, yes.

6 Q So this average cost change over time could be
7 reflecting a change in the mix of mail in this group, too,
8 couldn't it?

9 A Again, my answer would be what kind of time period
10 are you talking about? And I don't think that would
11 fundamentally drive the numbers that we see here now.

12 Q Okay. But basically, there is a lot of stuff
13 going on --

14 A Yes, there is.

15 Q -- in these two. There are differences between
16 what is in the two groups. There is migration from one
17 group to the other group. Presumably the cheapest to
18 process mail from the single piece group is the only thing
19 that is going to make it across the line and migrate to
20 discount mail. I don't think Valentines are going across.

21 A Yes. But remember, over the same time period that
22 you're talking about, you're talking about factors that
23 would raise the cost of single piece mail. For the first
24 time, most of that first class mail became machine readable,
25 and that has attenuated what would otherwise be much higher

1 costs for that single piece mail. Despite that, in the
2 single piece mail stream, you still see these basic costs
3 differences going up from the actual CRA data.

4 Q Sure. But also, again, the handwriting may be
5 more readable now than it was a few years ago --

6 A No. The handwriting isn't any more readable. The
7 machines can read it. The machines have improved.

8 Q That's what I mean, is that the machines are able
9 to --

10 A When it comes to my handwriting, I can guarantee
11 you that it is the machines that have improved, not my
12 handwriting.

13 Q No. Excuse me. If you heard me saying that
14 people's handwriting has improved, I did not mean that. But
15 the ability of the Postal Service machines to read the
16 handwriting has improved.

17 A Yes.

18 Q But there are still, you know, lumpy pieces and
19 large pieces of mail, and things that have odd shapes and
20 stuff that cannot be machined. And that is all left in the
21 first class, single piece mail stream. And when you're
22 having migration of the machinable mail from the first class
23 single piece over to the discount categories, and you're
24 having -- going -- shifts within the discount piece, how can
25 you look at just the average for each of these two

1 categories and say anything about it?

2 A People do it all the time.

3 Q Yeah, I know they do.

4 A And the main reason is because when you're talking
5 about 100 billion pieces of mail, the factors that you are
6 considering are just not that important in the numbers as
7 they come out. They're all true points. Every single point
8 you're making is true. Does it affect the numbers
9 fundamentally, particularly between consecutive years? No,
10 it doesn't.

11 Q How do you know it doesn't affect the numbers?

12 A Because I've gone back, and we have tried to
13 isolate these things over the years from time to time, as
14 has the Postal Service. You'd have to go back through
15 scores of library references.

16 Q Okay. Gee, when I studied multivariant regression
17 analysis, it was different than this. All right. Okay.
18 But in any case, the difference between these two numbers
19 doesn't really tell us much of anything except that there
20 has been a changing mix of mail in each of these groups.
21 Isn't that right?

22 A I wouldn't agree with that at all. I think
23 fundamentally what the CRA aggregate numbers show is actual
24 cost differences as opposed to the modeled cost differences,
25 which witness Riley took exception to as being -- I think

1 his derogatory term for it was should cost estimates. I
2 actually have adopted his term because I think it raises a
3 good question mark about the whole legitimacy of USPS cost
4 modeling.

5 Q Thank you for that. Has the Postal Rate
6 Commission endorsed the cost avoidance methodology that you
7 have put forward in these tables in the past two rate cases?

8 A No.

9 Q In fact, hasn't the Commission agreed with the
10 Postal Service that there should be a benchmark mail type
11 used to calculate costs avoided for automated presort mail
12 rather than this general average of all nondiscounted
13 mixture of letters, flats, and parcels that you have shown
14 in these tables?

15 A Yes. The Commission has agreed that instead of
16 using an average, a mixing post of all single piece letters,
17 we should use something called a bulk metered mail piece,
18 which is very hard to find in the real world.

19 Q Okay. If you had had an opportunity to file a
20 case in chief in this rate case, would the CRA differential
21 analysis have been part of it?

22 MR. HART: I object. What is the relevance of
23 that to this? This is not a motion to strike. This is
24 rebuttal testimony in cross-examination. And I'm not going
25 to allow -- I don't think we should allow counsel for the

1 union to argue her motion to strike, as she tried to do with
2 Mr. Bentley. This is not a motion to strike. I object.

3 MS. CATTER: I'm not trying to argue the motion to
4 strike. I'm just trying to go and find out what this
5 testimony is.

6 MR. HART: What is the relevance of the question
7 whether or not he would have said this in a case in chief?
8 He didn't file a case in chief?

9 CHAIRMAN OMAS: I think I agree with Mr. Hart.
10 Continue, please.

11 BY MS. CATTER:

12 Q In prior rate cases, where you have filed -- have
13 you filed cases in chief in prior rate cases?

14 A Yes.

15 Q Have you filed a case in chief on behalf of the
16 major mailers on this issue in a prior -- excuse me, on
17 behalf of either the American Bankers Association or the
18 National Association of Presort Mailers in prior cases?

19 A Yes.

20 Q Did it involve any of the issues that are covered
21 in your rebuttal testimony today?

22 A My rebuttal testimony today is solely based on
23 refuting Mr. Riley's testimony. It is Mr. Riley, not I, who
24 raised the issue of the cost and revenue analysis and actual
25 data, actual CRA data, as against the Post Service's should

1 cost models. The only reason that the CRA data is in this
2 testimony today, this surrebuttal testimony, is because of
3 Mr. Riley's affirmative statements in his testimony.

4 Q Okay. So are you saying that in prior testimony
5 you filed on behalf of the American Bankers or the National
6 Association of Presort Mailers, you didn't do any of this
7 sort of CRA analysis?

8 A I'm not saying that.

9 Q Well, I'm asking that. Did you go and do the CRA
10 analysis in prior testimony?

11 A Yes. In every testimony I have filed, I have
12 begun my analysis by looking at something that is actual,
13 tangible, and measurable, like I can touch this table. And
14 in the case of Postal Service data, that always begins with
15 an audited CRA. I then go from that point.

16 Q Well, I don't think I need an answer to my
17 question. Had he filed a case a chief, we would have begun
18 with the CRA testimony. I think that's pretty clear that he
19 would have.

20 MR. HART: Mr. Chairman, I would ask counsel for
21 APWU not to argue to this Commission or to me about her
22 point. She can direct her questions to the witness, and I
23 would ask her to leave it at that.

24 MS. CATTER: Thank you, Mr. Hart.

25 In section B, on page 10, you seem to be moving on

1 to a totally different alternative method of calculating
2 costs avoided based on Postal Service's library reference
3 J84. Is this the methodology used by Ms. Robinson in her
4 calculation of the proposed first class rates?

5 THE WITNESS: No, it is not.

6 BY MS. CATTER:

7 Q Has this library referenced been sponsored by any
8 Postal Service witness?

9 A Not to my knowledge.

10 Q Okay. Now the cost methodology in table 4 at the
11 top of page 11, is that consistent with the cost methodology
12 numbers you presented in tables 1 through 3?

13 A Is it consistent?

14 Q Yes.

15 A It is a refinement based on trying to disaggregate
16 CRA data into rate category cost data. So in that sense,
17 yes, it is consistent. All of the models are based on and
18 have reconciliations with the CRA aggregates, whether it is
19 Postal Service methodology or witness Miller's methodology.

20 Q Okay. Does this -- this table, this Table 4, use
21 the Postal Service's cost attribution methodology, the one
22 that's reflected in -- I believe it's library reference 60,
23 isn't it? Or does it use the one in library reference 84?

24 A If I understood you correctly, this is not the
25 Postal Service's methodology. Perhaps I could have spelled

1 out the acronym PRC in the -- that refers to a Postal Rate
2 Commission's methodology.

3 Q Ah, I see. Okay. Where does he say that?

4 (Pause.)

5 BY MS. CATLER:

6 Q Now, you -- now, do these numbers on -- in Table 4
7 comes straight out of library reference J-84 someplace?

8 A They come straight out of the exact source that I
9 have in the table, response by the Postal Service to MMA
10 question -- MMA interrogatory T22-76.

11 Q And that had numbers in it that were straight out
12 of library reference J-84, right?

13 A I don't have that -- I don't have the answer to
14 MMA there. What I do know is that this is the Postal
15 Service's formal calculation --

16 Q Okay.

17 A -- of cost savings, using the PRC's -- the
18 Commission's methodology from the last rate case. That, I
19 do know.

20 Q Okay; all right. So that -- okay.

21 A And I believe it is in the record.

22 Q Okay. On page 14 in your Table 6, can you explain
23 how you arrived at the markup that you have on this table?

24 A Well, we began with, Mr. Reilly stated, desire to
25 have a uniform markup, in sense, as opposed to a percentage

1 markup based on differing cost coverages. And we took the
2 Postal Service's revenue requirement for test year 2003 and
3 for first class institutional cost contribution for the
4 letter subclass, instead of distributing it according to
5 cost coverages, as between single piece and work sharing, we
6 distributed using, for want of a better word, the Reilly
7 metric, the idea of a uniform absolute markup.

8 And as with witness Moeller's testimony, we -- we
9 came up with a uniform number. His numbers are different
10 than mine. He actually used the settlement numbers, but
11 interpreted witness Reilly the same way I did. Our markups
12 for single piece and work sharing would be 16.3 cents, were
13 you to adopt this metric.

14 Q But, of course, that is nowhere near the rates
15 that Mr. Reilly proposed, is it?

16 A No, it's not.

17 Q Okay. This is -- all right. And, in fact, the
18 rates that Mr. Reilly proposed has different contributions
19 for different wades and shapes, etc., don't they?

20 A It's not clear to me that Mr. Reilly's proposed
21 rates have any foundation whatsoever.

22 Q Okay. Let's see, have you looked at Mr. Reilly's
23 rate tables in APWT-1?

24 A In the appendix, yes. At the end of his
25 testimony?

1 Q Yes.

2 A Yes, I have.

3 Q Now, Mr. Reilly, in his testimony, indicates that
4 he believes that his tables are consistent with his theory
5 of a same contribution per piece. Are you, in any way,
6 suggesting that Mr. Reilly is recommending what you have
7 calculated in Table 6?

8 A I respectfully disagree with your interpretation of
9 your witness's testimony. I don't think that Mr. Reilly, in
10 his proposed rates, relied on his concept of an absolute
11 uniform markup. It was clear to me from reading witness
12 Reilly's testimony that he based his rates on proposed
13 discounts from Mr. Miller's estimation of cost avoidance.
14 Witness Reilly was also concerned to talk about something
15 that was longer term in nature and he threw out the concept
16 and he left it as a concept, as to what a uniform absolute
17 markup is.

18 He -- in my judgement, he never operationalized
19 that concept in his testimony, in his proposed rates or
20 anywhere else. As with his reliance on the CRA actual
21 numbers, I think this concept backfires on him, because once
22 one actually goes through and calculates what the
23 implications of a uniform markup are, I think the numbers
24 really don't work out in the way that witness Reilly would
25 have thought a priori that they might.

1 Q Okay. But -- so, you've taken language in Mr.
2 Reilly's testimony, interpreted it the way you believe he
3 must have meant it, come up with a totally different series
4 of rates that are implied from that, totally different from
5 what he actually endorsed in his testimony, and said, yep,
6 that's what he's endorsing. Is that what you're saying with
7 your Table 6?

8 A No. In fact, I go to great trouble, as even a
9 cursory reading of my testimony will make clear, that the
10 rates that I have run on models, based on Mr. Reilly's
11 concept, are illustrative only. That is the best one can
12 do. It is actually very difficult to operationalize witness
13 Reilly's concept.

14 Postal Service data is just not presented, even in
15 the most disaggregated form that you would like to see it.
16 It is not presented in a way, in which one can easily
17 estimate the implications of witness Reilly's theory, I
18 guess you called it. We, nonetheless, tried to do that
19 under a variety of assumptions, but -- because I think we
20 have to make some assumptions of our own, just to go from a
21 concept of the numbers. I'm very careful to use the word
22 "illustrative" here. I'm aware of the rates that Mr. Reilly
23 proposed and I'm aware that they aren't these rates.

24 Q And those are the ones that he endorses in his
25 testimony and they are not the ones that you have in this

1 table here, Table 6; is that correct?

2 A He endorses a different set of rates in his
3 testimony; but the rates in his testimony, Ms. Catler, are
4 not the result of applying his concept of a uniform absolute
5 markup.

6 Q That may be, because that may not be what he
7 interpreted those comments to mean.

8 Why don't we turn to Table 7, which is on page 16.
9 Can you explain how you calculated the markup in this one?

10 A Yes. It -- we really follow the same procedure as
11 we did in Table 6. But, it struck me that witness Reilly,
12 if one were to adopt his uniform absolute dollar markup
13 concept at all, certainly should apply it across similar
14 letter mail pieces and certainly should not be limited to
15 applying it between discounted and non-discounted mail and
16 first class.

17 So, I simply extended his concept throughout the
18 service. And as a practical matter, what that means is
19 extending the uniform markup into the large volumes of
20 advertising mail and standard A. And this table is a result
21 of doing that.

22 Q Okay. Now, when you do this, are you assuming
23 that every single piece within each one of these groups is
24 exactly the same?

25 A I am assuming the same assumption that he made in

1 first class.

2 Q Well, I want you to --

3 A The letter pieces -- that it's basically letter
4 mail.

5 Q Wait a second, I want you to articulate your
6 assumption, because I want to be able to go and compare it
7 to his assumption. Are you assuming, when we talk about a
8 uniform markup, that we're talking about a uniform markup on
9 identical pieces of mail? So, are you assuming that
10 everything in this group is basically identical?

11 A Physical letter mail being processed and then
12 being delivered, essentially, yes.

13 Q Okay. Now, in Table 7, you're going beyond just
14 the first class mail to all the different rate categories.
15 Doesn't witness Reilly say that the contribution for each
16 class should be set before figuring the individual rates for
17 various rate categories?

18 A Yes, he does.

19 Q Okay. And aren't you suggesting -- you aren't
20 suggesting that witness Reilly would support the rates you
21 have in Table 7, are you?

22 A I don't know what he would support. He did state,
23 under oral cross examination, that it was his client that
24 asked him to limit his testimony to first class mail and
25 that, to paraphrase, he didn't really have much of a problem

1 extending some of these notions to other classes. I've
2 simply done that for him.

3 Q Okay. Now, at lines 34 through 35 of your
4 testimony, you say, "One can interpret witness Reilly's
5 proposal as being a uniform markup for a piece of first
6 class mail -- letter mail, regardless of how much it
7 weighs." Now, isn't it true that Reilly clearly talks about
8 similar pieces? Are you suggesting that a four-ounce letter
9 that's not automatable because it is too fat and heavy is
10 the same as a half-ounce machinable letter?

11 A Certainly, I'm not. And, indeed, the issue of how
12 to treat extra ounces and trying to ascertain how to
13 operationalize witness Reilly's metric prove one of the more
14 daunting tasks, in trying to operationalize it at all. And
15 in one set of model runs, we included the extra ounces. In
16 another set of model runs, we excluded them.

17 MS. CATLER: Okay.

18 (Pause.)

19 MS. CATLER: I have no further questions, at this
20 point.

21 CHAIRMAN OMAS: Mr. Tidwell -- Mr. Hart, do you
22 need some time with your witness?

23 MS. TIDWELL: No more than five minutes, Mr.
24 Chairman.

25 CHAIRMAN OMAS: All right. We'll take a five-

1 minute break.

2 (Whereupon, a brief recess was taken.)

3 CHAIRMAN OMAS: Mr. Hart?

4 MR. HART: Thank you.

5 REDIRECT EXAMINATION

6 BY MR. HART:

7 Q Dr. Clifton, counsel for APWU, during the cross
8 examination, asked you about your Table 4, at page 11, on
9 your testimony. It seemed to be concerned about the
10 derivation of that table. That -- am I correct that that
11 table uses the Commission -- methodology that the Commission
12 used in R2000?

13 A Yes, that is correct.

14 Q That would include the delivery proxy that they
15 used in that case?

16 A Yes.

17 Q And the same cost pools that they used in that
18 case?

19 A Yes.

20 Q Including -- so, you included the two cost pools
21 that they included in the last case, but that Mr. Miller
22 felt should be excluded in this case?

23 A Yes.

24 Q Am I correct that that's the same exercise,
25 essentially, that is reflected in Major Moeller's library

1 reference MMALRJ-3?

2 A Yes.

3 Q On the CRA -- on your use of the CRA as a witness
4 in prior cases, counsel for APWU was interested in that
5 issue. Would you tell me specifically what piece of
6 testimony it was the first time that you introduced this
7 issue with the CRA differential between single piece and
8 presort?

9 A It was rebuttal testimony, not direct testimony,
10 for the American Banker's Association in R-94. We were
11 rebutting an OCA witness.

12 Q Last question, counsel for APWU asked you whether
13 there was any relevance -- or whether the Commission might
14 make any use of this CRA cost differential, in light of the
15 fact that they had used the bulk meter mail as a benchmark
16 to measure cost avoidance. Even if the Commission, in this
17 case, were to use the bulk metered mail -- bulk metered mail
18 as a benchmark to measure cost avoidance, could you see any
19 uses they might make of this CRA cost differential between
20 the more aggregated rate categories of single piece and
21 presort?

22 A Well, I think all roads lead to the CRA. No
23 matter what modeled cost approach is being used, you have to
24 relate it to something in reality. All that we have in
25 reality is the CRA. I've expressed a preference in this

1 testimony, as well as R2000, that the modeled cost approach
2 is getting so out of whack, that we need actual CRA data by
3 rate category for first class work shared mail. It would be
4 a vast improvement. It would greatly reduce the cost that I
5 charge my clients. I think it would give the Commission a
6 lot of comfort and everyone a lot of comfort, if we
7 eliminated these modeled cost approaches and had direct CRA
8 estimates of the major volume drivers for the Postal
9 Service.

10 MR. HART: Thank you. That's all I have, Mr.
11 Chairman.

12 CHAIRMAN OMAS: Mr. Clifton, that completes your
13 testimony here today. We appreciate your contribution to
14 our record and you are now excused.

15 THE WITNESS: Thank you, Mr. Chairman.

16 (Witness excused.)

17 CHAIRMAN OMAS: Mr. Hall, can you spare energy,
18 would you please call your next witness?

19 MR. HALL: Thank you, Mr. Chairman. We'd like to
20 call Richard E. Bentley, on behalf of Key Span Energy, at
21 this time.

22 CHAIRMAN OMAS: Mr. Bentley is already under oath
23 in this case, so you may proceed to enter his testimony.

24 CROSS EXAMINATION

25 BY MR. HALL:

Heritage Reporting Corporation
(202) 628-4888

1 Q Mr. Bentley, do you have before you a copy of a
2 document that is identified as Exhibit KE-SRT-1 and is
3 entitled "Surebuttal testimony of Richard E. Bentley, on
4 behalf of Key Span Energy?"

5 (The document referred to was
6 marked for identification as
7 Exhibit No. KE-SRT-1.)

8 THE WITNESS: Yes, I do.

9 BY MR. HALL:

10 Q Should any changes or corrections be made to that
11 document?

12 A No.

13 Q Was this testimony prepared by you or under your
14 direction and supervision?

15 A Yes, it was.

16 Q And do you adopt it as your sworn testimony in
17 this proceeding?

18 A Yes, I do.

19 Q Now, do you, also, present another analysis that
20 is identified as Exhibit KE-1A?

21 (The document referred to was
22 marked for identification as
23 KE-1A.)

24 THE WITNESS: Yes.

25 BY MR. HALL:

1 Q Any changes or corrections to that?

2 A No changes.

3 Q No. Was that prepared by you or under your
4 direction and supervision?

5 A Yes.

6 Q And you adopt that as your sworn testimony, as
7 well?

8 A Yes, I do.

9 MR. HALL: At this time, Mr. Chairman, I'd like to
10 move admission of Exhibits KE-SRT-1 and 1A.

11 CHAIRMAN OMAS: As I noted earlier, there is a
12 pending motion to strike a portion of this testimony, filed
13 by APWU. Are there any other objections?

14 (No response.)

15 CHAIRMAN OMAS: Hearing none, I will direct
16 counsel to provide the reporter with two copies of the
17 corrected direct testimony of Richard E. Bentley. That
18 testimony is received into evidence and will transcribed
19 into the record, at this time.

20 (The documents previously
21 marked for identification as
22 KE-SRT-1 and KE-SRT-1A were
23 received into evidence.)

24 //

25 //

SRT
Exhibit KE-~~95~~-1

**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
KEYSPAN ENERGY**

February 20, 2002

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Surrebuttal Testimony of Richard E. Bentley
On Behalf of
KeySpan Energy

I. INTRODUCTION

A. Statement Of Qualifications

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

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff (now the Office of Consumer Advocate), I testified before the Postal Rate Commission in four separate proceedings. Since leaving the Commission, I have testified before the Commission as a private consultant in every major rate case, most recently in Docket No. R00-1, and the most recent major reclassification case, Docket No. MC95-1. A more detailed account of my 20-plus years of experience as an expert witness on postal ratemaking and classification is provided as Attachment I to this testimony.

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

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

B. Purpose and Overview Of Testimony

KeySpan Energy (KeySpan) is a signatory to and strong proponent of the Postal Service's Stipulation and Agreement¹ (S&A) for establishing negotiated rates. Prompt

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

1 implementation of the S&A rates by June 30, 2002 will provide the Postal Service with
 2 about \$1.2 billion additional revenues above the revenues it would otherwise receive
 3 through the end of the test year if **all** its originally filed rates were approved by the
 4 Commission and implemented on or about October 1, 2002. At the same time, the S&A
 5 provides the Postal Service and all affected parties with rate certainty and an end to
 6 litigation, important benefits during these uncertain times. For mailers of Qualified
 7 Business Reply Mail (QBRM) like KeySpan, the S&A mitigates somewhat the
 8 disproportionately high rate increase proposed in the Postal Service's initial filing.

9 All participants, except American Postal Workers Union, AFL-CIO (APWU), either
 10 affirmatively support or do not oppose the S&A. Even APWU opposes only very limited
 11 aspects of the S&A: First-Class workshare discounts that APWU claims are greater than
 12 the related cost savings. APWU's position apparently is that the Postal Service and,
 13 indirectly APWU members, should receive not only the increased revenues made
 14 possible by the June 30, 2002 implementation date but also additional revenues of up to
 15 \$3.1 billion² resulting from implementation of the higher First-Class workshare rates and
 16 a drastic reduction, from 3 cents to 0.6 cents, in the QBRM First-Class discount. APWU
 17 witness Riley proposes to increase the First-Class rate to affected QBRM recipients by
 18 17.4 percent, over twice increase for First-Class single piece in the S&A.

19 Of particular interest to KeySpan, APWU opposes the S&A because it believes
 20 that it is inappropriate to offer a First-Class QBRM discount that is greater than the
 21 Postal Service's purported cost savings. While I do not necessarily agree that such a
 22 premise is inappropriate³, the purpose for my testimony during this phase of the
 23 proceeding is to review the Postal Service's derived First-Class QBRM cost savings,
 24 and show that the QBRM discount proposed in the S&A is far less than those cost
 25 savings. To accomplish this, I have focused most of my testimony on the

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

³ The Postal Service has justified the recommendation of 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 Docket No. R97-1 was filed before the Postal Rate Commission. Tr 12/4875.

1 methodological changes and flaws present in the QBRM cost savings upon which Mr.
2 ey relies.

3 QBRM consists of machinable letters that bear a pre-approved prebarcode and
4 are mailed as First-Class single piece.⁴ QBRM currently receives a 3-cent discount
5 from the basic First-Class rate. This discount is designed to reflect the reduced postal
6 labor costs that result from processing letters that are both machinable and
7 prebarcoded.

8 In its original filing, the USPS proposed to reduce the First-Class QBRM discount
9 from 3 cents to 2.5 cents, based on claims by USPS witness Miller that QBRM cost
10 savings had shrunk dramatically. Specifically, Mr. Miller claimed that QBRM cost
11 savings shrunk from 3.4 cents in Docket No. R2000-1 to only 0.85 cents in this case.
12 However, on two subsequent occasions, Mr. Miller had to revise his derived QBRM cost
13 savings upwards to correct errors that KeySpan uncovered through the discovery
14 process. Thus, his initial cost savings estimate of 0.85 cents was revised, first to 1.2
15 cents and finally to 1.6 cents. The S&A proposes to leave the QBRM discount
16 unchanged at 3 cents.

17 APWU witness Riley proposes that the Commission totally disregard Mr. Miller's
18 corrected cost savings of 1.6 cents and set the QBRM discount at 0.6 cents based on
19 his preference for using the 0.85 cent cost savings as included in the Postal Service's
20 initial filing.⁵ Mr. Miller has withdrawn the methodology used to derive the .85-cent cost
21 savings and has acknowledged that it is erroneous. Moreover, Mr. Riley has
22 demonstrated no knowledge of Mr. Miller's cost savings analyses or the changes that
23 Mr. Miller made to the methodology currently approved by the Commission for
24 measuring such savings. Tr 12/4875. Accordingly, APWU proposes to slash the
25 QBRM discount by 80%, from 3 cents to .6 cents, without any factual or analytical basis.

⁴ QBRM recipients pay the postage through an advanced deposit account when the QBRM letters are returned to them. In addition, QBRM recipients pay a per piece fee depending upon the volume that they receive. Mr. Miller has overstated per piece unit costs for counting "high" volume QBRM. However, because of the proposed settlement in this case, a discussion of per piece costs and fees is outside the scope of this testimony.

⁵ Mr. Riley was so uninterested in how the Postal Service derived QBRM unit cost savings that he was unsure if Mr. Miller's first revision was the result of a methodological change or simply a typographical error. He was simply interested in relying upon Mr. Miller's lowest estimate of QBRM cost savings. Tr 12/4926-27.

I urge the Commission to reject APWU's proposal for QBRM and adopt the &A's proposal to maintain the discount at 3 cents. At the outset, Mr. Miller's corrections in good faith and under oath of errors that KeySpan pointed out to him during discovery cannot simply be disregarded by the Commission, as Mr. Riley prefers. I know of no logical basis for accepting obviously erroneous statements not even in the record that a witness has recanted while simultaneously ignoring corrected factual evidence that is in the record. Accordingly, there is no support whatsoever for Mr. Riley's 0.6 cents discount proposal.

APWU witness Riley claims that Mr. Miller's revised 1.6 cent QBRM cost savings is too high. He is wrong. The problem is not that Mr. Miller's revised estimate of QBRM cost savings is too high, but that his revisions did not go far enough.

Mr. Riley apparently did not care that the 0.85 cent cost savings figure he relied upon was not part of the record. Similarly, Mr. Riley either did not know or did not care that, when Mr. Miller subsequently revised his QBRM cost savings, he used a materially different methodology than he used to develop the cost savings included in his originally filed testimony. Mr. Miller's revised cost savings was based on an outdated methodology from Docket No. R97-1 that neither the USPS witness nor the Commission used in the last case, Docket No. R2000-1. More importantly, Mr. Riley apparently did not know or care that, in reconciling his model-derived unit costs to the CRA, USPS witness Miller produced results that are both inaccurate and unreasonable.

Tables 1 and 2 summarize, respectively, the QBRM cost savings and discounts that are recommended to the Commission in this case.

Table 1
Comparison of Proposed First-Class QBRM Cost Savings
(Cents)

Cost Analysis Provided By (Date):	Derived QBRM Cost Savings
USPS (9/24/01)	0.85
USPS (11/5/01)	1.25
USPS (11/14/01)	1.65
KE (2/20/02)	5.03

Sources: Library References USPS-LR-J-60, KE-LR-J-1

Table 2

**Comparison of Proposed First-Class QBRM Discounts
(Cents)**

Proposal Provided By:	QBRM Discount
USPS (Pre S&A)	2.5
S&A	3.0
APWU	0.6

As shown in Table 1, the USPS revised both its cost savings and cost savings methodology, resulting in nearly doubling its initial estimate of QBRM cost savings. My analysis of QBRM cost savings shows that the prebarcoding and machinability feature of QBRM saves the Postal Service more than three times the Postal Service's final amount. As shown in Table 2, the currently effective discount of 3.0 cents is much lower than the related cost savings.

In considering the reasonableness of the 3-cent QBRM discount contained in the S&A, the Commission should not simply pick the lowest possible cost savings figure out of the air as APWU witness Riley did. Rather, the Commission should examine critically the accuracy and reasonableness of the derived QBRM savings that parties suggest are appropriate for supporting the First-Class QBRM rate they propose. In this case, USPS witness Miller modified the methodology the Commission relied upon in Docket No. R2000-1 to measure QBRM cost savings. Even after two revisions, his analysis fails to accurately capture a realistic measurement of QBRM savings. Exhibit KE-1A provides a technical explanation why the Commission should reject Mr. Miller's derived QBRM cost savings. As I show in my testimony, a more complete and reasonable QBRM cost savings analysis shows that QBRM cost savings are 5.0 cents, more than sufficient to support maintenance of the 3-cent QBRM discount.⁶

⁶ If the S&A is not approved, I am fully prepared to show that QBRM savings are even higher than 5.0 cents and would urge that the Commission *increase* the discount. I would also present evidence supporting a much lower per piece fee for High Volume QBRM. However, because KeySpan has agreed to accept the QBRM discount and per piece fee contained in the S&A, the additional savings are not necessary to justify the 3-cent discount proposal, and I have not presented evidence to support these additional savings.

1 Finally, I should also point out that throughout my testimony and analyses, I have
2 lied on the Commission's cost attribution methodology, which generally assumes that
3 labor costs are 100% variable with volume. The impact of using the Commission's cost
4 attribution method is that processing productivities are lower than those assumed by the
5 Postal Service, and the derived unit costs will be higher, all other things being equal.

6 **II. THE QBRM FIRST-CLASS RATE**

7 The first discounted QBRM rate of 30 cents, a 3-cent discount from the 33-cent
8 First-Class basic rate, was established in Docket No. R97-1. The discount reflected
9 cost savings that result from the pre-approved, prebarcode feature of QBRM.

10 Today, the QBRM discount remains at three cents, so that the rate that QBRM
11 recipients pay is 31 cents. APWU proposes to lower the discount to .6 cents in this
12 proceeding, thereby raising the QBRM rate by 17.4%, from 31 cents to 36.4 cents. This
13 is an extraordinarily increase compared to the system-wide average of 8.7% originally
14 proposed by the Postal Service in its rate filing.

15 **A. Methodology for Measuring QBRM Cost Savings**

16 The methodology for deriving QBRM cost savings has evolved during the last
17 two omnibus rate proceedings. In Docket No. R97-1, the cost savings were measured
18 by comparing the mail processing costs for prebarcoded QBRM to those same letters if
19 postage-prepaid with handwritten addresses (HAND). The comparison was made for
20 processing letters through the Remote Barcode System (RBCS) and the outgoing
21 primary operations. In Docket No. R2000-1, this comparison was expanded to include
22 mail processing through and including the incoming secondary operation. This
23 methodology makes sense because barcoding capabilities and accept/reject rates for
24 operations within the RBCS, and for the outgoing BCS primary, are not identical.
25 Therefore, the QBRM and HAND letter cost-causing attributes will be different after the
26 outgoing primary and will affect mail processing costs downstream.

I have utilized the same methodology that the Commission employed in Docket R2000-1.⁷ In general, the steps include:

1. Estimating the unit HAND and QBRM mail processing costs by using a mail flow model;
2. Reconciling the derived mail flow model results using similar mail flow models where the CRA-derived unit costs are available;
3. Computing the difference in the reconciled mail processing unit costs.

The results of my analysis are shown in Table 3.

Table 3
Derivation of QBRM Unit Worksharing-Related Cost Savings
(Cents)

Rate Category	Model Mail Processing Unit Cost	CRA Proportional Adjustment Factor	Reconciled Mail Processing Unit Cost	Mail Processing Worksharing Related Savings
HAND Letters	6.82	1.41	9.65	
QBRM Letters	6.52	0.71	4.62	5.03

Source: Library Reference KE-LR-J-1

QBRM letters cost, on average, about 5.0 cents less to process than those same letters would cost if the addresses were handwritten. The source of these savings include the additional costs necessary to apply barcodes to the HAND letters, and the additional costs incurred downstream because more of those HAND letters will necessarily be processed by manual means rather than by automation.

B. Derivation of Mail Flow Model-Derived Unit Costs

1. Evaluation of Mail Flow Model Results

In order to develop the workshare-related unit costs for HAND and QBRM letters, it is first necessary to evaluate carefully the quality of the new mail flow model presented by USPS witness Miller in this case. A critical evaluation is important

⁷ In this proceeding, USPS witness Miller recommends that the Commission backtrack to its Docket No. R97-1 methodology for measuring QBRM cost savings. Because he neglects automation savings that accrue in downstream operations, Mr. Miller's methodology necessarily understates QBRM savings.

because there are no CRA-derived unit costs for HAND or QBRM letters with which to compare results from the mail flow model. Consequently, there is no way to reconcile the results to the CRA or other known information. As a result, it is not possible to measure directly the consistency, reliability, or accuracy of USPS witness Miller's derived unit costs.

Based on my review and analysis of his methodology and assumptions, I conclude that Mr. Miller's new model simply does not reflect the real world very well and, as discussed in further detail below, produces results that are inconsistent and/or implausible.⁸

In general, the accuracy and reliability of USPS witness Miller's HAND and QBRM model-derived unit costs can be evaluated by comparing them to the CRA-derived unit costs for other rate categories where that cost information is available, as I have done in Table 4.

Table 4
Comparison of USPS Witness Miller's CRA- and Model-Derived Unit Costs (Cents)

Rate Category	USPS Cost Methodology			PRC Cost Methodology		
	CRA-Derived Unit Cost	Model-Derived Unit Cost	CRA Adjustment Factor 1/	CRA-Derived Unit Cost	Model-Derived Unit Cost	CRA Adjustment Factor 1/
First Class						
BMM Letters	6.447	4.276	1.508	7.745	5.476	1.414
Non-automation Letters	9.887	6.621	1.493	11.576	9.669	1.197
Automation Letters	2.138	2.683	0.797	2.421	3.416	0.709
Standard Mail						
Non-automation Letters	8.155	5.664	1.440	9.712	7.896	1.230
Automation Letters	2.150	2.656	0.809	2.481	3.372	0.736

1/ CRA-Derived Unit Cost / Model-Derived Unit Cost

Sources: Library References USPS-LR-J-60, USPS-LR-J-84

⁸ Mr. Miller uses aggregated input data that, understandably, cause some irregularities. Such problems usually can be minimized by using CRA proportional adjustment factors to reconcile model-derived unit costs to CRA-derived unit costs. Implausible and inconsistent results indicate the existence of further problems with the input data, and cannot be corrected by simply applying the CRA proportional adjustment factors.

1 The comparisons in Table 4 reveal an obvious, disturbing pattern. Two distinctly
 2 ifferent results occur depending upon whether or not First-Class letters are processed
 3 through the RBCS.⁹ When non-prebarcoded letters are sent through the RBCS, the
 4 model significantly **understates** costs. When letters bypass the RBCS, as prebarcoded
 5 QBRM letters do, the model significantly **overstates** costs. There can be no doubt that
 6 the RBCS costs, as reflected in the Postal Service's mail flow models, are problematic.
 7 In sum, the comparison of the model-derived and CRA-derived unit costs in Table 4
 8 clearly demonstrates that something is wrong with USPS witness Miller's mail flow
 9 model. The critical issues involve the simulation of the RBCS and whether the entry
 10 point for a letter under study is at or after that operation.

11 To confirm my suspicion, I changed the entry points in Mr. Miller's model to
 12 compare USPS processing costs if the Postal Service applies the barcode versus
 13 mailers providing letters with prebarcodes. Obviously, letters that require the Postal
 14 Service to apply a barcode should cost more to process than letters that are
 15 prebarcoded, all other things equal. However, this is not the case as reflected by USPS
 16 witness Miller's model. Table 5 compares the unit costs for non-prebarcoded letters on
 17 the one hand, and those same letters if they were prebarcoded. The fact that
 18 prebarcoded letters cost more than non-prebarcoded letters illustrates a serious flaw in
 19 the cost model.

20 As shown in Table 5, letters that are prebarcoded by mailers cost more to
 21 process, according to USPS witness Miller's cost model, than if those same letters are
 22 barcoded by the Postal Service within the RBCS. This result is highly unrealistic.

⁹ The Postal Service reads, evaluates, sprays on barcodes, and sorts non-prebarcoded letters in the outgoing RBCS operation. Prebarcoded letters, such as QBRM, Courtesy Reply Mail (CRM) and Automation letters, bypass the RBCS.

Table 5

**Comparison of Model-Derived Unit Costs
If Non-Prebarcoded Letters Were Prebarcoded
(Cents)**

First-Class Model	Miller Model-Derived Unit Cost (No Prebarcoding)	Adjusted Model-Derived Unit Cost (if Letters Prebarcoded)	Adjusted Model % Change
BMM	4.276	4.630	8.28%
Mach MAADC-AADC	4.289	4.630	7.96%
Mach Single Piece	4.279	4.630	8.19%
Nonstandard Single Piece	9.483	10.985	15.85%
Nonstandard Presorted	7.988	8.463	5.94%

Source: Library Reference KE-LR-J-3

The reverse is also true for one First-Class category -- Automation Mixed AADC letters. One would expect that presorted, prebarcoded letters, if not presorted or prebarcoded, would cost significantly more for the Postal Service to process. After all, the Postal Service must be able to read and understand the address, figure out the barcode, spray on the barcode and then sort the letter. Automation Mixed AADC presorted letters normally enter the Postal Service mailstream at the outgoing BCS secondary, bypassing the RBCS and the outgoing BCS primary. However, the Postal Service's *simulated* RBCS operation is so efficient that when such letters are entered directly into the RBCS operation, rather than the outgoing BCS secondary, they actually cost the Postal Service less to process. Such a result is totally unrealistic, further illustrating the problem with Mr. Miller's simulation of the RBCS operation. This implausible result is shown in Table 6.

Table 6
Comparison of Model-Derived Unit Costs
If Prebarcoded Letters Were Not Prebarcoded
(Cents)

First-Class Model	Miller Model-Derived Unit Cost (All Letters Prebarcoded)	Adjusted Model-Derived Unit Cost (if All Letters Not Prebarcoded)	Adjusted Model % Change
Auto Mixed AADC Presort	4.280	4.276	-0.09%

Source: Library Reference KE-LR-J-3

Since the HAND and QBRM models are constructed from the same overall model presented by Mr. Miller for other rate categories¹⁰, HAND and QBRM letters will be subject to the same infirmities illustrated above in Tables 5 and 6. Therefore, the failure of the model to reasonably reflect the cost for the Postal Service to apply barcodes to non-prebarcoded letters needs to be addressed.

HAND letters are first sent through the RBCS operation to obtain barcodes. As shown for other rate categories that require RBCS processing in Table 4 above, the model significantly understates costs. Just the opposite is true for QBRM letters. QBRM letters bypass the RBCS operation completely. For rate categories that bypass the RBCS, the model overstates the true costs. This is shown in Table 4 for automation categories, both in First Class and Standard Mail. The fact that the model understates costs for mail such as HAND letters that require RBCS processing, and overstates costs for mail such as QBRM letters that bypass the RBCS, is not necessarily an error, but does require attention. This fact goes a long way to explain why Mr. Miller's alleged QBRM savings are so low compared to savings I have derived. While Mr. Miller makes no attempt to adjust for this problem¹¹, my methodology does.

¹⁰ Generally, the models presented for each rate category are virtually identical. The major difference is the point at which the letters enter the mail stream.

¹¹ In fact, his methodology exacerbates the problem, as discussed on pages 20-21 and in Exhibit KE-1A.

2. The Simulated RBCS Operation Understates Costs

In order to fully understand USPS witness Miller's mail flow models for HAND and QBRM models, it is necessary to take a closer look at the RBCS operation as reflected by the model. There are several input variables that could cause the model to understate the cost of processing letters within the RBCS. These input variables include accept and reject rates, productivities, piggyback factors, mail flow densities, and wage rates. Since the Postal Service collects, maintains, adjusts and processes all the data inputs for the models, I am reluctant to simply modify any of the data inputs. However, an even closer look at the RBCS data indicates, for the most part, why the models understate these costs.

a. RBCS Cost Variables

The RBCS system operating in conjunction with the Advanced Facer-Canceler System (AFCS) is very complex. It enables the Postal Service to barcode raw collection letters even if they exhibit a handwritten or less-than-perfect address. Subsequently, letters barcoded by the Postal Service are processed by automation down to and including the delivery sequence sortation. USPS witness Miller's testimony concerning the operating efficiency and cost effectiveness of RBCS is overly optimistic. In discussing the RBCS system, he describes the differences, in terms of mail processing costs, among letters with handwritten addresses, machine printed addresses, and letters, such as QBRM letters, with pre-approved addresses and prebarcodes, and stresses that the cost differences "have been shrinking over time." USPS-T-22 at 5. I have no quarrel with Mr. Miller's position, although he may have over-emphasized the point to which these unit costs are "converging." (Id.) Given the investment that the Postal Service has made in the RBCS, it stands to reason that downstream savings for processing non-prebarcoded letters will accrue. However, there is no concrete evidence that the Postal Service can sort non-prebarcoded letters less expensively than prebarcoded letters, as his models purport to show. The only logical explanation is that RBCS processing costs, as simulated by the cost flow model, are understated.

USPS witness Miller's cost model includes several possible input variables that affect the overall RBCS productivity. These include the number of pieces processed per hour (PPH), mail flow densities, and the accept/reject rates. The accept/reject rates

are particularly important since they determine how many letters can be processed downstream by automation through the incoming secondary operation. Thus, all three of these variables potentially are major cost drivers for processing letter-shaped mail through the RBCS.

1. PPH and Density

When letters first enter the mailstream, non-prebarcoded letters are sent to the RBCS for barcoding whereas prebarcoded letters are sent directly to the outgoing BCS primary operation. According to USPS witness Miller, the PPH for the RBCS operation, which involves reading and evaluating addresses, barcoding the letters if possible, and sorting the letters, is significantly higher than the PPH for the outgoing BCS primary operation, which simply involves reading barcodes and sorting the letters. A comparison of the productivities for these two operations is shown in Table 7.

Table 7

Comparison of Productivities Utilized by the Postal Service's Mail Flow Models (Pieces Per Hour)

Operation	MODS PPH	RBCS Efficiency Over BCS Primary	Marginal PPH	RBCS Efficiency Over BCS Primary
RBCS Outgoing ISS	6,269	10%	8,142	24%
RBCS Outgoing OSS	9,177	60%	10,240	56%
Outgoing BCS Primary	5,724		6,559	

Source: Library Reference USPS-LR-J-60

The Postal Service's explanation for the higher RBCS productivity generally centers on the need for fewer personnel to sweep fewer bins.¹² Such an explanation is plausible only if the density of successfully barcoded letters that go directly from the RBCS to the incoming secondary are significantly lower than the density of prebarcoded letters that go directly from the outgoing BCS primary to the incoming secondary. USPS witness Miller agrees with my assessment:

¹² Responses to KE/USPS-T22-1, KE-USPS-T39-14 and Tr 14/6031-2 (Docket No. R2000-1).

[A] DBCS that contained fewer bins would likely maintain higher productivities due to the reduced walking and sweeping time requirements. However, the amount of mail that would have to be rehandled in downstream operations would increase. (Response to KE/USPS-T39-14H)

However, the densities used in Mr. Miller's model do not show that "the amount of mail . . . rehandled in downstream operations would increase." In fact, as Table 8 shows, letters leaving the RBCS bypass the outgoing secondary and incoming primary and go directly to the incoming secondary 4 to 5 times more often than letters that leave the outgoing BCS primary. This should not happen if there are fewer separations in the RBCS, along with its higher productivity.

Table 8

**Comparison of Mail Flow Densities for Letters Sorted
By the RBCS and Outgoing BCS Primary Operations**

From Operation	Outgoing		Incoming		
	Primary	Secondary	MMP	SCF/Primary	Secondary
RBCS Outgoing ISS	3.22%	28.61%	3.86%	37.94%	26.36%
RBCS Outgoing OSS	2.12%	16.26%	10.74%	36.88%	34.00%
Outgoing BCS Primary		7.29%	35.74%	50.38%	6.59%

Source: Library Reference USPS-LR-J-60

The higher productivity, combined with the unexpectedly higher density of letters going directly from RBCS to the incoming secondary, could explain why the RBCS operation **appears** to be so efficient in USPS witness Miller's mail flow model. But, in my opinion there is a second, more plausible explanation as explained below.

2. Reject Rate and Automation

Mr. Miller's simulation of the RBCS operation indicates a **very low** reject rate when compared to the outgoing BCS primary operation. Table 9 compares the reject rates for various models.

Table 9

Comparison of Barcoding and Automation Percentages

Model	% of Letters Barcoded to 9/11-Digits	% of Letters Barcoded to 5-Digits	% of Letters Rejected to Manual Operations	% of Letters Processed by Auto Thru the Incoming Secondary
Letters Thru RBCS				
HAND (Revised Testimony)	91.02%	6.86%	2.12%	NA
BMM	98.58%	1.04%	0.38%	84.90%
Mach Single Piece	98.68%	0.88%	0.44%	84.98%
Nonauto Mach MAADC-AADC	97.85%	1.77%	0.37%	84.27%
Letters By-Passing RBCS				
QBRM	NA	NA	4.90%	80.78%
Auto Mixed AADC	NA	NA	4.00%	82.69%
PRC Model, Docket No. R00-1				
HAND	87.50%	6.60%	5.90%	78.54%
QBRM	NA	NA	4.80%	89.29%

Sources: Library References USPS-LR-J-60, KE-LR-J-1, PRC-LR-12, Part B (Docket No. R2000-1)

Keeping in mind that the RBCS receives raw collection mail, it seems almost inconceivable that the reject rate for the RBCS operation would be lower than that for the outgoing BCS primary. After all, the RBCS must read and interpret addresses, many of which are handwritten and problematic.¹³ In contrast, letters sent to the outgoing BCS primary are prebarcoded with machine printed addresses, many of which are pre-approved and checked through the Postal Service's CASS and move update programs. Obviously, as the number of letters that can be barcoded increases, the number of letters processed downstream with automation through the incoming secondary also increases. This significantly reduces mail processing costs.

According to the 1999 USPS Address Deficiency Study, 30% of First-Class pieces sampled had at least one address deficiency. See Library Reference USPS-LR-I-192 in Docket No. R2000-1.

1 The figures shown in Table 9 illustrate the extremely high efficiency provided by
2 he simulated RBCS operation. According to Mr. Miller's data, the RBCS operation
3 barcodes almost 100% of the letters that enter the system. This theoretical result does
4 not square with Postal Service data indicating that the Service barcodes only about 80%
5 to 85% of all non-prebarcoded, machinable letters. Library Reference KE-LR-J-2.
6 Therefore, the barcoding percentages used in Mr. Miller's cost model seem
7 unreasonably high, a primary reason why his modeled-derived costs are so low
8 compared to the CRA-derived costs for letters entering at the RBCS.

9 Another way to view the impact of the high RBCS barcoding percentages
10 assumed in Mr. Miller's models is to compare the resulting percentage of letters
11 processed by automation through the incoming secondary operation to the comparable
12 percentage for prebarcoded letters. Prebarcoded letters are, by definition, virtually
13 100% machinable and barcoded. According to the Postal Service's cost model,
14 however, prebarcoded letters are processed by automation through the incoming
15 secondary **less often** than non-prebarcoded letters. Table 9 also shows these illogical
16 results. Note that the percentage of prebarcoded letters rejected to a manual operation
17 is **much higher** than that for non-prebarcoded letters. This appears to be another
18 illogical result.

19 Finally, it is instructive to compare the barcode and automation percentages for
20 the model presented by the Postal Service in this case to the Commission's accepted
21 model in the last case. There are significant differences. The Commission's model
22 from Docket No. R2000-1 seems much more reasonable compared to results that can
23 be reasonably expected. As shown in Table 9, HAND letters logically have a higher
24 reject rate than QBRM letters in the outgoing primary, and a lower probability of being
25 processed by automation through the incoming secondary operation. Mr. Miller's model
26 in this case unexpectedly and incorrectly **reverses** this relationship.

Virtually 100% of all raw collection letters have access to the RBCS.¹⁴ Thus, virtually all the letters that run through the RBCS operation, after the culling operations, are machinable. Since we know the Postal Service successfully barcodes only 80% to 85% of those pieces, it is difficult to reconcile this range with the modeled RBCS results that indicate almost 100% of the letters being successfully barcoded to either 5 digits or 9 or 11 digits. If HAND and machinable single piece letters are barcoded 97.88 and 99.56% of the time, respectively, as shown in Table 9, what could possibly bring the average down to the actual figures? Obviously, the models overstate the RBCS' barcoding capabilities.

b. Derivation of the Unit Cost for HAND Letters

As discussed above, I believe it is readily apparent that the Postal Service's model simulation of letter mail flow through the RBCS operation presents a far too rosy picture of how efficient that operation is. The model inputs reflect (1) reject rates that are too low, (2) productivity rates that are too high, (3) unreasonably high density figures that theoretically permit letters that are successfully barcoded in the RBCS to bypass many intermediate operations, or (4) some combination of all these factors.

I am reluctant to make wholesale changes in the Postal Service's input data.¹⁵ Instead, for purposes of my surrebuttal testimony, I use the Postal Service's model as presented to the Commission without any adjustments. For HAND letters, the model-derived unit cost is 6.82 cents. To reconcile this unit cost to the CRA, I use the relationship obtained for metered mail (MM) letters.¹⁶ Since HAND letters and MM letters both enter the postal mailstream through the RBCS, it is reasonable to use the same relationship of modeled costs to CRA costs as obtained for MM to reconcile the HAND model-derived unit cost. My computations are shown in Table 10.

¹⁴ Tr 14/5938-9 (Docket No. R2000-1).

¹⁵ This is certainly an area that would benefit from additional research. I urge the Commission to direct the Postal Service to commit the necessary resources to correct these flaws before it presents such a study in the next omnibus rate proceeding. If not for the settlement, I would have modified Mr. Miller's mail flow model to increase the cost of letters as they are processed by the RBCS. The result of this analysis would have increased QBRM savings further above the 5-cent level proposed in this testimony. Accordingly, a higher QBRM discount, such as 4 cents suggested by APWU Riley, could be justified in the absence of the settlement. Tr 12/ 4924.

In my testimony, I use metered mail in the same sense and for the same purpose that USPS witness Miller uses bulk metered mail (BMM). For all intents and purposes, the terms are identical.

Table 10

**Computation of the HAND Model-Derived Unit Mail Processing Cost
(Cents)**

Rate Category	MM CRA Unit Cost	Model Unit Cost	CRA Adjust Factor	Hand Reconciled Unit Cost
Metered Mail	7.75	5.48	1.414	
Hand		6.82	1.414	9.65

Source: Library Reference KE-LR-J-1

c. Derivation of the Unit Cost for QBRM Letters

The derivation for the QBRM mail processing unit cost is much easier than for HAND letters simply because the flaws associated with simulating the RBCS operation in the mail flow model do not affect prebarcoded QBRM letters. However, there are still issues that have to be resolved even for letters that bypass the RBCS operation.

As discussed above, the model presented by USPS witness Miller for prebarcoded letters has a different problem. While Mr. Miller's model severely understates actual costs for non-prebarcoded letters, just the opposite is true for prebarcoded letters. As shown in Table 4 above, the model overstates automation letter costs by at least 19%. Therefore, reconciling model-derived unit costs for rate categories where the letters bypass the RBCS operation requires that the costs be **reduced** by application of the CRA adjustment factor. In contrast, in the HAND model, the model-derived unit cost must be **increased** in order to be reconciled to the CRA. Because QBRM and automation letters are prebarcoded, the Automation letter model is appropriate for reconciling QBRM unit costs to the CRA. Specifically, I have used the mail flow for Automation Mixed AADC letters as the basis for reconciling the QBRM model-derived unit cost to the CRA. Just as in the case for MM and HAND letters, the simulated mail flow for QBRM and Automation Mixed AADC letters are almost identical. The only significant difference is that QBRM letters enter the postal mail stream in the outgoing BCS primary whereas Automation Mixed AADC letters enter the postal mail stream in the outgoing BCS secondary.

The QBRM model-derived unit cost is 6.52 cents. As with the automation mail models, this unit cost is going to be high compared to the CRA-derived unit cost. To properly adjust the model-derived cost downward, I have applied the Automation CRA proportional adjustment factor to the model-derived unit cost as shown in Table 11.

Table 11
Computation of the QBRM Model-Derived Unit Mail Processing Cost
(Cents)

Model	Auto Mixed AADC Unit Cost	Model Unit Cost	CRA Adjust Factor	QBRM Reconciled Unit Cost
Auto Mixed AADC	3.98	5.61	0.709	
QBRM		6.52	0.709	4.62

Source: Library Reference KE-LR-J-1

d. Final Test of Reasonableness

As a final test for reasonableness, I have compared the resulting derived workshare-related unit cost for QBRM to that for other rate categories. All Automation letters are prebarcoded, just as QBRM is. The only difference is that QBRM is not presorted. Therefore, since mail preparation costs are not included in the mail flow model, QBRM letters should cost slightly more than automation letters. This makes perfect sense because in the USPS mail flow model, the QBRM entry point is one processing operation prior to the entry point for Automation mixed AADC.¹⁷ As shown in Table 12, the relationship between QBRM letters and automation letters is sound. QBRM letters cost more than Automation Mixed AADC letters but less than BMM letters.

¹⁷ QBRM letters enter at the outgoing BCS primary. Automation mixed AADC letters enter at the outgoing BCS secondary.

Table 12
Comparison of KE-Derived Unit Costs for QBRM to
Other First-Class Rate Categories
(Cents)

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost
Hand Letters (Using BMM Adj Factor)	9.65
Machinable Single Piece Letters	7.75
Bulk Metered Mail (BMM) Letters	7.75
QBRM Letters (Using Auto Adj Factor)	4.62
Automation Mixed AADC Letters	3.98
Automation AADC Letters	3.04
Automation 3-Digit Presort Letters	2.72

Sources: Library References KE-LR-J-1, MMA-LR-J-1

Moreover, HAND letters should cost more than BMM letters. HAND letters are normally more difficult to read, incurring additional costs as they are processed through the RBCS. This relationship is also apparent from the unit costs shown in Table 12.

Finally, for illustrative purposes I have computed the QBRM unit cost using the Postal Service's methodology for reconciling QBRM letters to the CRA. By applying the MM CRA proportional adjustment factor to the QBRM model-derived unit cost, as USPS witness Miller does, the result is totally illogical. These hypothetical results are shown in Table 13.

As shown in Table 13, the QBRM unit cost (9.22 cents) using the Postal Service's method for reconciling to the CRA is 4.6 cents greater than for Automation Mixed AADC letters (4.62 cents). There is no way to explain such a difference between prebarcoded letters whose only difference is that one enters the mailstream at the outgoing BCS primary while the other enters at the outgoing BCS secondary. It is inconceivable for the automation BCS primary to add 4.6 cents to the unit cost of QBRM or any other category of letters. Therefore, the only reasonable manner to reconcile QBRM letters to the CRA is by applying the Automation (and not the MM) CRA proportional adjustment factor.

Table 13

**Comparison of Unit Costs for QBRM to Other First-Class Rate Categories
Using The Postal Service's CRA Adjustment Factor for QBRM
(Cents)**

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost
Hand Letters (Using MM Adj Factor)	9.65
QBRM Letters (Using MM Adj Factor)	9.22
Machinable Single Piece Letters	7.75
Bulk Metered Mail (BMM) Letters	7.75
Automation Mixed AADC Letters	3.98
Automation AADC Letters	3.04
Automation 3-Digit Presort Letters	2.72

Another way of viewing the CRA reconciliation issue illustrates why it is necessary to use different factors for HAND and QBRM letters. Because the costs of the RBCS are understated, the MM CRA proportional adjustment factor tends to correct this flaw for HAND letters by raising the model-derived unit cost. For prebarcoded letters that bypass the RBCS operation, no such correction is required. For these letters, the model overstates mail processing costs. Therefore, it is both appropriate and necessary to apply the Automation proportional adjustment factor that tends to reduce the model-derived unit cost.

C. QBRM Derived Unit Cost Savings

The mail processing unit cost difference between HAND and QBRM letters represents savings that result from the prebarcode feature of QBRM. This computation is shown in Table 14.

Table 14

**Derivation of QBRM Mail Processing Cost Savings
(Cents)**

Letter Category	Reconciled Unit Cost	QBRM Savings
HAND	9.65	5.03
QBRM	4.62	

Sources: Tables 10 and 11

III. SUMMARY AND CONCLUSIONS

APWU witness Riley is way off base when he complains that the QBRM discount proposed in the S&A is too high. Properly measured, QBRM cost savings are at least 5 cents. In a fully litigated case, cost savings of that magnitude might well support an **increase** in the QBRM discount. In any event, the cost savings provide ample support for maintaining the discount at the currently effective level of 3 cents, as the signatories to the S&A agreed upon. This result is fair and equitable. APWU's ill-considered proposal to reduce the discount to a mere .6 cents should be rejected because there is no factual or logical basis for supporting that result.

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.

**Technical Discussion of the Postal Service's
Understatement QBRM cost savings**

Mr. Miller's corrected QBRM unit cost savings --1.6 cents -- is less than one-third of the 5.0-cent cost savings that I derive. There are three separate flaws that lead to such disparate results. First, Mr. Miller omits from his analysis all other additional operations after the outgoing primary. His explanation for this omission is that the cost savings should only reflect the Postal Service's cost of applying a barcode to a handwritten addressed envelope. See response to KE/USPS-T22-28A. However, Mr. Miller's position disregards two important facts that have a direct bearing on the proper derivation of cost savings: (1) the Postal Service cannot possibly barcode 100% of HAND letters, and (2) pursuant to USPS requirements, 100% of QBRM letters must be prebarcoded, and the barcodes and other attributes affecting processing costs must be pre-approved. Therefore, Mr. Miller's analysis omits QBRM savings that accrue downstream since, after the outgoing primary, the proportion sorted by automation will be greater for QBRM letters than for HAND letters.

Second, Mr. Miller's model understates the unit processing cost for letters that are processed through the RBCS operation and, at the same time, overstates the unit processing cost for letters that bypass the RBCS, such as QBRM. Both of these points are clearly illustrated by the comparison of model-derived and CRA-derived unit costs shown in Table 4 of Exhibit KE-T-1. USPS witness Miller should have recognized these inconsistent results exhibited by his model-derived unit costs.

Finally, Mr. Miller compounds the inconsistent results exhibited by his models by inappropriately applying the same BMM CRA proportional adjustment factor for both the HAND and QBRM models. As discussed above, when the entry point for a rate category is the RBCS, the model will understate costs. The BMM CRA adjustment factor corrects this problem by raising the model-derived unit cost. But applying this same BMM CRA adjustment factor to QBRM, which bypasses the RBCS, only makes the problem of overstating QBRM costs worse. Therefore, in order to accurately tie the model-derived unit cost to the CRA, Mr. Miller should have applied the Automation CRA adjustment factor to the QBRM model-derived unit cost.

1 In his Direct Testimony, Mr. Miller did not provide any reason to support his
2 application of the BMM CRA adjustment factor for both HAND and QBRM. Belatedly, in
3 response to a KeySpan interrogatory, he noted that QBRM and HAND letters "are
4 subsets of the First-Class single-piece mail stream." See response to Interrogatory
5 KE/USPS-T22-8C. Mr. Miller's observation, in this instance, is not very useful. While
6 the processing mail flows of HAND and BMM letters are very *similar*, the processing
7 mail flows for QBRM and BMM letters are very *different*. QBRM is unique within the
8 First-Class single piece mailstream because it is prebarcoded, machinable and
9 possesses a complete and accurate address by definition. The fact that QBRM is
10 mailed as single piece and makes up a tiny part of that subclass is simply not important.
11 As discussed above, the most important cost determinant for single piece letters, as
12 presented by Mr. Miller's model, is whether or not the letters are processed in the RBCS
13 operation. Non-automation presorted letters and BMM letters require RBCS
14 processing. Therefore, it is inappropriate to apply either the non-automation¹ or the
15 BMM CRA adjustment factor to reconcile the model-derived unit cost of QBRM that
16 does *not* require RBCS processing.

17 Finally, there was good reason for Mr. Miller's decision to omit processing
18 operations after the outgoing primary after KeySpan pointed out various shortcomings in
19 his original analysis. Had Mr. Miller followed the Commission's methodology from
20 Docket No. R2000-1, which included all operations up to and including the incoming
21 secondary, Mr. Miller would have had even more problems that would have been
22 difficult, if not impossible, to resolve.

23 Table 1 and Table 2 (below) are comparable to Tables 12 and 13 of Exhibit KE-
24 T-1.² Table 1 shows a comparison of Mr. Miller's CRA-reconciled workshare-related
25 unit costs, had he not altered the model to stop the flow of mail after the outgoing
26 primary.

¹ In Docket No. R2000-1, the Commission applied the non-automation, presorted CRA adjustment factor to reconcile the QBRM model-derived unit cost. Based on the new model presented by the Postal Service in this case, this is no longer reasonable.

² The unit costs shown in Tables 12 and 13 reflect the Commission's Docket No. R2000-1 methodology for measuring workshare-related unit costs. Those shown in Table 1 reflect the Postal Service's proposed method for measuring workshare-related unit costs.

Table 1

**Comparison of Illustrative USPS-Derived Unit Costs
For QBRM to Other First-Class Rate Categories
(Cents)**

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost (USPS Costs)
Hand Letters (Using BMM Adj Factor)	8.33
QBRM Letters (Using BMM Adj Factor)	7.49
Machinable Single Piece Letters	6.45
Bulk Metered Mail (BMM) Letters	6.45
Automation Mixed AADC Letters	3.41
Automation AADC Letters	2.68
Automation 3-Digit Presort Letters	2.40

Source: KE-LR-J-4

As shown in Table 1, Mr. Miller's reconciled workshare-related unit costs would have been anomalous. It is inconceivable that QBRM letters cost *more* to process than non-prebarcoded machinable single piece letters or BMM letters. Such a relationship simply does not make sense. Nor is it possible to reasonably explain the 4.08-cent difference (7.49 cents – 3.41 cents) between QBRM and Automation Mixed AADC letters.

The anomalous relationship shown in Table 1 is cured by applying the Automation CRA proportional adjustment factor to the QBRM model-derived unit cost, as shown in Table 2. The reconciled QBRM workshare-related unit cost (3.96 cents) is between the unit costs for Automation Mixed AADC (3.41 cents) and BMM letters (6.45 cents). This is where it should be.

Table 2

**Comparison of Illustrative USPS-Derived Unit Costs
For QBRM to Other First-Class Rate Categories Using
KeySpan's CRA Adjustment Factor
(Cents)**

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost (USPS Costs)
Hand Letters (Using BMM Adj Factor)	8.33
Machinable Single Piece Letters	6.45
Bulk Metered Mail (BMM) Letters	6.45
QBRM Letters (Using Auto Adj Factor)	3.96
Automation Mixed AADC Letters	3.41
Automation AADC Letters	2.68
Automation 3-Digit Presort Letters	2.40

Source: Library Reference KE-LR-J-4

Applying KeySpan's recommended CRA adjustment factor to the Postal Service's costs results in a sound, reasonable relationship.³ Accordingly, I urge the Commission to reject Mr. Miller's method for reconciling QBRM model unit costs to the CRA. It makes much more sense to apply the Automation letters CRA proportional adjustment factor to the QBRM model-derived unit cost.

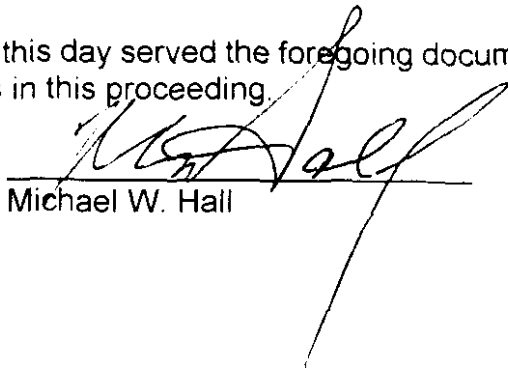
Since the Postal Service's QBRM model already overstates the derived unit cost, applying the BMM CRA proportional cost adjustment factor, as Mr. Miller does, only exacerbates the accuracy of the derived unit cost. His methodology mistakenly raises the already inflated model-derived unit cost by an additional 51%. (See USPS-LR-J-60, page 10)

The combination of these three errors explains why Mr. Miller understates QBRM savings by 3.4 cents per piece.

³ Even if the Commission accepted the Postal Service's cost attribution methodology and Mr. Miller's proposal to eliminate two cost pools from the workshare cost savings analysis, the derived QBRM unit cost is 8.33 cents – 3.96 cents = 4.37 cents. This is still more than sufficient to justify the S&A's proposed QBRM discount of 3 cents.

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

1 CHAIRMAN OMAS: This brings us now to --

2 MR. HALL: We have -- I'm sorry, we have one more
3 thing. We have some library references. If I could just
4 run through those with the witness.

5 DIRECT EXAMINATION

6 BY MR. HALL:

7 Q Mr. Bentley, do you have before you library
8 references that you are sponsoring in this case, that are
9 identified as library reference KE-J-1, 2, and 3 -- I think
10 there's a 4 -- and 4?

11 (The documents referred to
12 were marked for identification
13 as Library Reference KE-J-1,
14 KE-J-2, KE-J-3, and KE-J-4.)

15 THE WITNESS: Yes; yes, I do.

16 BY MR. HALL:

17 Q And were those prepared by you or under your
18 direction and supervision?

19 A Yes, they were.

20 MR. HALL: Mr. Chairman, I would like to also have
21 those moved into evidence, at this time, and have the rule
22 against copying them into the transcript waived, if we
23 could, since they are on file with the Commission.

24 CHAIRMAN OMAS: Without objection.

25 //

1 (The documents previously
2 marked as Library Reference
3 KE-J-1, KE-J-2, KE-J-3, and
4 KE-J-4 were received into
5 evidence.)

6 CHAIRMAN OMAS: This now brings us to oral cross
7 examination. One party has requested oral cross
8 examination, American Postal Worker's Union, AFL-CIO. Is
9 there any other party, who wants to cross examine this
10 witness?

11 MR. TIDWELL: The Postal Service will have some
12 brief cross examination, as well, Mr. Chairman.

13 CHAIRMAN OMAS: Well, fine. So, at this point,
14 Ms. Catler, the floor is yours again. You may begin.

15 MS. CATLER: Thank you, Mr. Chairman.

16 CROSS EXAMINATION

17 BY MS. CATLER:

18 Q Mr. Bentley, I have admitted in cross examining
19 some of the witnesses earlier today, and probably you, that
20 in the time permitted to examine this testimony, I can't say
21 that I have become fully -- full into -- or understanding of
22 the testimony. And I think that goes -- doubles for this
23 one.

24 I want to start off by asking you, this is --
25 you've previously testified for Key Span or its predecessor

1 --

2 A Brookland Union.

3 Q -- Brookland Union Gas.

4 A Yes.

5 Q -- I love their -- it being bug on this, I really
6 did miss that -- on this issue in numerous prior cases,
7 isn't that right? What other times have you testified on
8 the QBRM rate?

9 A I think the first time was R90, so that would be
10 R90, R94, R97, R2000.

11 Q Okay.

12 A And I'm trying to think if it's R87, as well.
13 Maybe counsel can help me.

14 MR. HALL: Perhaps I could ask counsel for APWR,
15 if she's referring to simply the subject of his surebuttal
16 testimony, in this case, or also the per piece rate or other
17 issues that were --

18 MS. CATLER: Just the --

19 MR. HALL: -- identified --

20 MS. CATLER: -- topic in this case. But, that's
21 fine. Going back to 1990 is fine.

22 MR. HALL: If you could please start '90.

23 MS. CATLER: If it's really '87, that's okay, too.

24 MR. HALL: Okay.

25 BY MS. CATLER:

1 Q So, I take it that over time, you have been
2 building and refining your views on the appropriate
3 methodology for measuring QBRM cost savings; is that
4 correct?

5 A Well, not really. QBRM is a concept that really
6 just evolved in R97. So for those 10 years prior to then,
7 there was no such thing as QBRM and there was nothing to
8 refine.

9 Q Okay; all right. But in '97 and then 2000, did
10 you, also, talk -- did you talk about this --

11 A I did --

12 Q -- QBRM?

13 A I did in R2000. I did not in R97. That was the
14 time, in which the Postal Service proposed a PRN discount
15 and, at that time, I wrote testimony, which was basically in
16 favor of the Postal Service's proposal, with minor changes
17 to it.

18 Q Okay. So, let's talk about your testimony in
19 R2000 and its relation to this testimony. That was case-in-
20 chief testimony for -- it was Key Span by then, wasn't it?

21 A I filed two pieces of testimony: one was case-in-
22 chief and one was rebuttal.

23 Q Okay. But your methodology for measuring QBRM
24 cost savings was initially in your case-in-chief, wasn't it?

25 MR. HALL: Objection, Your Honor. Once again, I

1 think you've already ruled on this, that Ms. Catler would
2 not have an opportunity to argue --

3 CHAIRMAN OMAS: Ms. Catler -- I -- yes, would you
4 --

5 MS. CATLER: You ruled on me not asking questions
6 about whether he would have put it in his case-in-chief, in
7 this case. You allowed me to question the other gentleman
8 about whether this testimony of this sort was in prior case-
9 in-chief testimony. So, this is not -- you did not go in
10 and withstand an objection on that.

11 CHAIRMAN OMAS: Mr. Bentley, try to answer the
12 question.

13 MR. HALL: Well, can I then make a separate
14 objection? I still don't see the relevance to the testimony
15 he's presenting in this case.

16 MS. CATLER: Well, I'm trying to understand his
17 testimony here and I'm trying to see where the source of it
18 is. And I'm trying to find out whether his -- the
19 methodology that has -- he has put into this testimony here
20 is brand new or when it was first revealed. And so, I'm
21 asking him -- he said it didn't come in, in '97, because in
22 that case, he was supporting a new concept put out by the
23 Postal Service. I'm asking -- the next time he testified
24 was in 2000 and -- in case-in-chief and so I'm asking him is
25 that when you came up with the methodology. I think it's

1 perfectly relevant.

2 CHAIRMAN OMAS: Mr. Bentley?

3 THE WITNESS: Actually, in Docket 2001, as far as
4 QBRM savings was concerned, it was not really a
5 controversial issue. Most of my testimony was concerned on
6 the per piece rate and cost for QBRM. And I, basically,
7 followed the methodology that USPS witness Campbell used and
8 it was a very small part of my testimony, in that case.

9 BY MS. CATLER:

10 Q Okay. So is the methodology for measuring QBRM
11 cost savings that you're using in this testimony the same
12 methodology that you used in R2000-1?

13 A The methodology is the same. The application of
14 the methodology is slightly different.

15 Q Okay. Can you explain how the application of the
16 methodology is different in this case from what you've
17 previously presented to the Commission?

18 A In this case, there were differences in the
19 overall model that we used to compute the unit cost for hand
20 letters and for QBRM letters separately, hand being letters
21 with a handwritten address. And because of the problem in
22 the model, which I discussed in my testimony, when I am done
23 with the model derived unit cost, in order to reconcile
24 those costs to the CRA, I used a slightly different
25 methodology than was used in the last case.

1 Q Could you explain how the two methodologies
2 differ?

3 A In the last case, we came up with whatever the
4 unit model derived cost was and applied a -- it's called a
5 CRA adjustment factor and in the last case, I used the
6 automation CRA adjustment factor. The Commission used non-
7 automation adjustment factor in that case, for both hand
8 letters and QBRM.

9 In this case, there is such a difference in the
10 model, based on whether a letter is run through the RBCS --
11 that's the Remote Bar Code System -- versus a letter that
12 bypasses the RBCS, such as QBRM. That was necessary and
13 very reasonable to use different CRA adjustment factors,
14 based on the type of model that was in question here.

15 So, in the case of hand letters, which are very
16 similar to BMM, bulk meter mail, for which we have modeled
17 and CRA data, I used the CRA adjustment factor for BMM. For
18 QBRM, letters that bypass the RBCS, I used a model that also
19 -- where the letters bypass the RBCS and that was for
20 automation mail. So, I used the automation mail CRA
21 adjustment factor.

22 Q All right. So, let me see if I understand this.
23 In the last case, the -- the Postal Service used an
24 automation adjustment factor --

25 A Non-automation.

1 Q A non-automation adjustment factor and the Rate
2 Commission used a non-automation adjustment factor. You
3 used an automation adjustment factor?

4 A Yes. It really didn't matter that much either.
5 In fact, our results were very similar.

6 Q Okay. But, you used a different factor and the
7 Postal Service and the Rate Commission used -- than they
8 used.

9 A Yes.

10 Q And they used the same factor?

11 A Yes.

12 Q Oh, okay. And in this case, the Postal Service is
13 -- you're again differing from what the Postal Service has
14 proposed and this time, you're using an automation
15 adjustment for one part of it and a non-automation
16 adjustment for another part?

17 A It depends on the type of model that is the basis.
18 In other words, if the letters are run through the RBCS
19 operation, which, in the models, terribly understate the
20 real costs, causes the model -- the result to be way too
21 low, in the case of letters that are going through the RBCS
22 operation, because the operation understates costs by so
23 much. So, in order to reconcile that result to the CRA, you
24 have to reason. So, you apply the BMM adjustment factor.
25 And just the opposite happens with QBRM.

1 There is something else, too. The Postal Service
2 modified the models in this case, compared to the last case,
3 by going back to the R97 methodology and that has to do with
4 some of the problems that we had uncovered with Mr. Miller's
5 original estimates of QBRM savings. So, not only do we
6 apply different factors to reconcile to the CRA, I am
7 utilizing the Commission's and the methodology that I used
8 in the last case, whereas the Postal Service removes from
9 the analysis all operations after the outgoing primary, as
10 we all did in R97. So, there's a couple of problems there.

11 Q All right. And this is what you've done to go and
12 then figure out what the cost avoided by QBRM is, right?
13 This is -- the point of all this modeling is to figure out -
14 -

15 A The objective is to find out the cost difference
16 between a hand letter --

17 Q A hand letter.

18 A -- and a QBRM letter.

19 Q Okay. And that's where you've come up with a
20 savings of 5.03 cents, is that right?

21 A That's correct.

22 MS. CATLER: I'm sorry, I just -- I don't think I
23 can ask anymore questions about this. This is -- this is
24 really complicated and I'm afraid that I -- given the
25 constraints of time that -- in trying to go and understand

1 where you're coming from and what this issue is all about, I
2 just can't ask anymore about it.

3 CHAIRMAN OMAS: Well, we don't want to constrain
4 your time.

5 MS. CATLER: Thank you.

6 CHAIRMAN OMAS: If you want to continue --

7 MS. CATLER: No, no, no. That's not the time I
8 meant.

9 CHAIRMAN OMAS: Okay. I just didn't want you to
10 think that I was putting --

11 MS. CATLER: No, no, no, no, no. I understand.

12 CHAIRMAN OMAS: Mr. Hall?

13 MR. HALL: We're certainly willing to wait around
14 until Ms. Catler studies it a little more here and
15 formulates the questions --

16 CHAIRMAN OMAS: Well, I think she just said that -
17 -

18 MR. HALL: -- because, you know, we want her to
19 have an adequate opportunity to ask questions and receive
20 answers.

21 MS. CATLER: No, my point --

22 MR. HALL: If I could have just a few minutes.
23 Well, I'm sorry.

24 MS. CATLER: Wait a second, wait a second. Mr.
25 Tidwell has a few questions and I want to make it clear that

1 it's not that I don't have the minutes I need here. It's
2 that having gotten six pieces of testimony six days ago and
3 the complexity of this particular one, it has been
4 impossible for me to really get to the depth of
5 understanding that I would need, to go and ask further
6 questions on this.

7 CHAIRMAN OMAS: Mr. Tidwell?

8 BY MR. TIDWELL:

9 Q Good afternoon, Mr. Bentley. I'd like to direct
10 your attention to page 16 of your testimony, lines 23 and
11 24. You've got a statement, in which you assert that as
12 shown in your Table 9, hand letters logically have a higher
13 reject rate than QBRM letters in the outgoing primary.
14 You're talking about the automated outgoing primary
15 operation there, aren't you?

16 A Yes. For hand letters, it's the entire RBCS
17 operation and for QBRM, it's the outgoing primary.

18 Q Now, hand letters, as they enter the outgoing
19 primary, are bar coded, are they -- are they not?

20 A They'll be bar coded, if possible, within the
21 RBCS, which includes the outgoing primary. The point is,
22 the hand letters, in Mr. Miller's model, has a lower reject
23 rate than QBRM letters; yet, in R2000, in the last case, as
24 shown by the Commission's model, it's just the opposite.
25 QBRM has a lower reject rate.

1 Q And the hand letters have a bar code applied by
2 the Postal Service?

3 A Yes.

4 Q And the QBRM letters are prepared by the recipient
5 and --

6 A No, no -- oh, yes. They're pre-bar coded by the
7 recipient, yes.

8 Q And you say that it's logical that hand letters
9 with bar codes applied by the Postal Service will have a
10 higher reject rate than QBRM letters. Why is that logically
11 the case?

12 A Because not all of those hand letters are going to
13 be able to have a bar code applied to them.

14 Q So, you're not making a bar coded piece to bar
15 coded piece comparison?

16 A That's correct.

17 Q I'd like to turn your attention to one final point
18 and that's simply on -- in your Exhibit 1A, at page one, and
19 particularly the sentence that begins on line 13, where you
20 state the Mr. Miller's analysis omits QBRM savings that
21 accrue downstream, since after the outgoing primary, the
22 portion sorted by automation will be greater for QBRM
23 letters than for hand letters. Now, what's the basis for
24 this assertion?

25 A It's the same point, not all hand letters are

1 going to be able to be bar coded within the RBCS. As I've
2 stated in my testimony, at least from the figures that have
3 been provided to me by USPS witness Kingsley, the Postal
4 Service bar codes are only about 80 to 85 percent of all
5 machinable letters. So, there's got to be some sort of
6 reject factor within the RBCS, which is -- got to be less
7 than, you know, what Mr. Miller shows as 99 percent.

8 And I'm kind of guessing. There's several reasons
9 why the RBCS operation in the models understate cost. We
10 know that they understate cost and the reject rate is one
11 reason. The productivities might be too high is another
12 reason. The densities come out of there might be another
13 reason. But, I've mentioned all of these, but I don't know
14 which one it is, because it's the Postal Service that
15 provides the data.

16 Q When you say "we know that it understates cost,"
17 who is the "we?"

18 A Myself. I know that it is and the people I
19 discuss this with, at least counsel. And that's shown --
20 very objective, but that's shown in the table, which
21 compares the CRA cost to the actual cost.

22 MR. TIDWELL: Okay. So, you've got your counsel
23 to agree with you. That's all I have.

24 THE WITNESS: I don't have much of a staff.

25 CHAIRMAN OMAS: Is that it, Mr. Tidwell?

1 MR. TIDWELL: That's it. Before we conclude, I
2 have one minor little housekeeping matter. I'll wait until
3 we wrap everything else up, though.

4 CHAIRMAN OMAS: All right, fine. Mr. Hall?

5 MR. HALL: If I could just go over and consult
6 with my witness for a second?

7 CHAIRMAN OMAS: I would appreciate that.

8 (Whereupon, a brief recess was taken.)

9 MR. HALL: Mr. Chairman, he's talked me out of any
10 redirect. So --

11 CHAIRMAN OMAS: At that, Mr. Bentley, that
12 completes your testimony here today. We appreciate your
13 appearance and your contribution to our record. And we
14 thank you and you are excused.

15 (The witness is excused.)

16 CHAIRMAN OMAS: Mr. Tidwell?

17 MR. TIDWELL: Mr. Chairman, on February 22nd,
18 presiding officer issued ruling number 51, directing the
19 Postal Service that if it wished to include into the record
20 the institutional response filed by APWU, in response to a
21 hearing room question, that we should format the question
22 and answer accordingly and be prepared to present it for
23 entry into the transcript in evidence today. And I have two
24 copies of a paraphrase of the question that I have just
25 shown to APWU counsel and the chart that they filed last

1 week and I'd like to put this -- move this into evidence, at
2 this time.

3 CHAIRMAN OMAS: Without objection, so ordered.

4 (Whereupon, the institutional
5 response by APWU was received
6 into evidence.)

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1 CHAIRMAN OMAS: Ladies and gentlemen, this
2 concludes our hearing today. I want to thank everybody for
3 their patience. It's been a long day. Ms. Catler, I'm sure
4 it's been a trying day for you. You did a yeoman's job, and
5 to everyone else here today. Thank you, very much. This
6 meeting -- the hearing is adjourned.

7 (Whereupon, at 5:45 p.m., the hearing was
8 concluded.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2001-1
CASE TITLE: Postal Rate and Fee Changes
HEARING DATE: February 26, 2002
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: February 26, 2002

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