

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

**COMPLAINT OF TIME WARNER, INC.
ET AL. CONCERNING PERIODICALS
RATES**

Docket No. C2004-1

**REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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**REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER**

AUTOBIOGRAPHICAL SKETCH

My name is Michael W. Miller. I am an Economist in Special Studies at the United States Postal Service. Special Studies is a unit of Corporate Financial Planning in Finance at Headquarters. I have testified before the Postal Rate Commission on six separate occasions.

In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness on behalf of the Postal Service. The first testimony presented First-Class Mail letters/cards and Standard Mail letters mail processing unit cost estimates and worksharing related savings estimates, the Qualified Business Reply Mail (QBRM) worksharing related savings estimate, the nonstandard surcharge/nonmachinable surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies. The second testimony presented First-Class Mail, Periodicals, and Standard Mail flats mail processing unit cost estimates.

In Docket No. R2000-1, I testified as the direct witness presenting First-Class Mail letters/cards and Standard Mail letters mail processing unit cost estimates and worksharing related savings estimates. My testimony also included the cost study supporting the nonstandard surcharge. In that same docket, I also testified as a rebuttal witness. My testimony contested key elements of the worksharing discount proposals presented by several First-Class Mail intervenors, as well as the Office of the Consumer Advocate (OCA).

In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply Mail (PRM) and QBRM mail processing cost avoidance estimates. In that same docket, I also testified as a rebuttal witness concerning the Courtesy Envelope Mail (CEM) proposal presented by the OCA.

1 Prior to joining the Special Studies unit in January 1997, I served as an Industrial
2 Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego,
3 California. In that capacity, I worked on field implementation projects. For example, I
4 was the local coordinator for automation programs in San Diego such as the Remote
5 Bar Coding System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also
6 responsible for planning the operations for a new Processing and Distribution Center
7 (P&DC) that was activated in 1993. In addition to field work, I have completed detail
8 assignments within the Systems/Process Integration group in Engineering. My primary
9 responsibility during those assignments was the development of Operating System
10 Layouts (OSL) for new facilities.

11 Prior to joining the Postal Service, I worked as an Industrial Engineer at General
12 Dynamics Space Systems Division, where I developed labor and material cost
13 estimates for new business proposals. These estimates were submitted as part of the
14 formal bidding process used to solicit government contracts.

15 I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa
16 State University in 1984 and a Master of Business Administration from San Diego State
17 University in 1990. I also earned a Professional Engineer registration in the State of
18 California in 1990.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 The purpose of my testimony is to enhance the Docket No. C2004-1 record, as it
3 pertains to costs, in response to the testimony of Time Warner et al. witness Stralberg.
4

5 **II. INTRODUCTION**

6 In his testimony, witness Stralberg stated his view that the Outside County
7 Periodicals rate structure proposed by witness Mitchell¹ is sound because it recognizes
8 "the characteristics of sacks, pallets, and bundles that affect postal costs, as well as the
9 characteristics of individual pieces that affect costs..."² In reality, additional cost drivers
10 affect Outside County Periodicals costs beyond those addressed in this case. These
11 additional cost drivers, however, are not specifically recognized in the proposed rates.
12 Given the large number of cost drivers that affect Outside County Periodicals costs, or
13 the costs for any postal product, it will not always be feasible to incorporate all cost
14 drivers into the rate schedule.

15 Despite this fact, Periodicals costs do appear to be the primary issue in this
16 case. In his testimony, witness Mitchell expressed the view that Periodicals rates are
17 increasing too rapidly.³ While Periodicals cost trends may have served as an incentive
18 to file this case, they should not be the only consideration. Consideration must also be
19 given to the data that support the analysis and the context in which those data have
20 been used.

21
22 **III. PERIODICALS COSTS ARE INFLUENCED BY NUMEROUS COST DRIVERS**

23
24 *Particularly since the late 1980s, there has been concern that, due to*
25 *rising costs, the rates for Periodicals have been rising inordinately*
26 *rapidly. Docket No. C2004-1, Tr.3/806 at 7-8.*
27

28 The Periodicals cost coverage figures, as presented in Cost and Revenue
29 Analysis (CRA) reports, have recently hovered around the 100-percent mark.
30 Consequently, any discussion of Periodicals inevitably leads to a discussion of costs,

¹ Docket No. C2004-1, Tr. 3/840.

² Docket No. C2004-1, Tr. 1/23 at 16 to 18.

³ Docket No. C2004-1, Tr. 3/805-822.

1 and whether those costs are reasonable. In recent years, the Postal Service and the
2 mailing community have expended a great deal of effort trying to contain these costs.

3
4 **A COST REDUCTION EFFORTS ARE UNDERWAY**

5 In Docket No. R2000-1, the Postal Service presented cost reduction programs
6 that were based on the savings associated with the combination of barcoded and non-
7 barcoded bundles in sacks, a reduction in the number of "skin" sacks, the
8 implementation of Line-Of-Travel (LOT) sequencing, and the institution of the newly
9 created L001 label list.⁴ Shortly after that docket, the Postal Service deployed the
10 Automated Flats Sorting Machine model 100 (AFSM100), which processed flat-sized
11 mail at improved productivity levels and provided an increased sorting capacity⁵ when
12 compared to its predecessor, the Flats Sorting Machine model 881 (FSM881).

13 During the past several years, Mailers' Technical Advisory Committee (MTAC)
14 and Postal Service work groups have also attempted to address issues pertaining to
15 Periodicals costs. These work groups have evaluated issues relating to bundle
16 breakage, alternative flats preparation methods, and a new flats container.

17 Furthermore, the Postal Service has attempted to control costs by proposing
18 moderate revisions to its rate structure. In Docket No. R2001-1, a pallet discount was
19 first proposed and implemented for Periodicals. Recently, the Postal Service has filed
20 two experimental co-palletization dropship discount mail classification cases, Docket
21 Nos. MC2002-3 and MC2004-1.

22
23 **B. EQUIPMENT DEPLOYMENTS AND COST REDUCTION PROGRAMS**
24 **MAY HAVE CONTRIBUTED TO IMPROVING THE SITUATION AS THE**
25 **PERIODICALS COST TREND APPEARS TO BE LEVELING OFF**

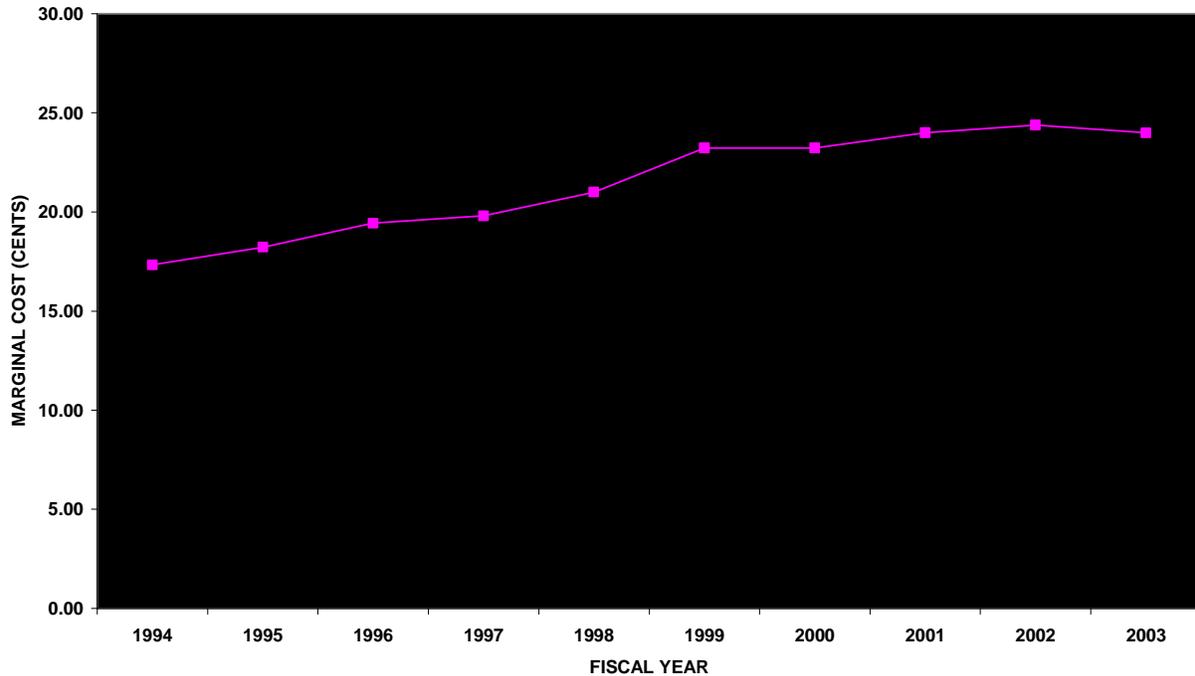
26 The Outside County Periodicals cost trend⁶ over the past ten Fiscal Years (FY)
27 appears to have leveled off to some extent, as shown in Figure 1 below. Between FY
28 1994 and FY 1999, the marginal cost increased nearly six cents. From FY 1999 to FY
29 2003, however, the marginal cost figures have remained relatively flat.

⁴ See the responses to Docket No. R2000-1, MPA/USPS-ST42-4 and MPA/USPS-ST42-5.

⁵ The AFSM100 productivity is, in general, over twice that of the FSM881, depending on the operation. The AFSM100 contains 120 bins, while the FSM881 contains 100 bins.

⁶ These figures were calculated using the Postal Service versions of the CRA and Cost Segments/Components reports.

FIGURE 1: OUTSIDE COUNTY PERIODICALS
CRA MARGINAL COST (CENTS)
FY 1994-2003



1
2 In general, it is not surprising that Outside County Periodicals marginal costs
3 would increase over time, as wage rates and other costs increase over time, in the
4 absence of any significant offsetting cost reductions. The expectation that any flats
5 costs would necessarily decline might not be realistic.⁷ While the costs for some letter-
6 shaped CRA line items may have, on occasion, decreased from one year to the next,
7 the assumption that the same phenomenon would occur for Periodicals may not be
8 valid. The letters automation program has been a cornerstone of the Corporate
9 Automation Plan (CAP) since the late 1980s. The flats automation program, on the
10 other hand, is relatively new. Nevertheless, the Postal Service continues to investigate
11 ways to contain flats costs.
12

⁷ Docket No. C2004-1, Tr. 3/808 at 1-6.

1 **C. FLATS MAIL CHARACTERISTICS ARE DIVERSE AND CONSIST OF AN**
2 **EXTENSIVE NUMBER OF COST DRIVERS, NOT ALL OF WHICH CAN BE**
3 **REFLECTED IN THE RATES**

4 The cost drivers for any mail piece shape, including flats, are numerous. Some
5 cost drivers are reflected in rates, while other cost drivers are not. The following factors
6 can all influence Periodicals flats costs: the network configuration through which the
7 mail is processed (i.e., centralized operations versus decentralized operations, such as
8 annexes and processing "hubs"), the building configurations through which the mail is
9 processed, the dock configurations through which the mail is processed, the equipment
10 available at the facilities through which the mail is processed, the methods used at the
11 facilities through which the mail is processed, the transportation used to ship mail
12 between postal facilities, destination entry, mail piece dimensions (length, height, and
13 thickness), mail piece weight, mail piece volume or "cube," container type (sack or
14 pallet), container size, container weight, bundling materials and the associated
15 breakage rates, bundle size, bundle weight, mail piece machinability (i.e., AFSM100
16 compatibility), the presence of a barcode on the mail piece, mail piece address location,
17 mail piece return address location, mail piece "noise," the use of polywrap, and the
18 frequency of distribution (if, for example, "Hot 2C lists" are used to manage separate
19 Periodicals mail streams).

20 It may not be realistic to expect that all the cost drivers listed above could be
21 incorporated into the rate schedule, even though the individual elements all affect costs.

22
23 **IV. THE CONTEXT IN WHICH A COST MODEL IS BEING USED IS IMPORTANT**

24 *Improvement in our understanding of costs in recent years has brought*
25 *the existing deficiencies into clearer focus and has suggested new paths*
26 *that cost recognition should follow. Tr. 3/800 at 16-18.*

27
28 *However, in order to be consistent with the Postal Service's mail flow and*
29 *cost assumptions in R2001-1, the productivity rate for manual incoming*
30 *secondary should be reduced to 422. That has the effect of sharply*
31 *increasing the estimated total piece sorting costs. Tr. 1/17 at 10-13.*

32
33 *To my knowledge, there has been no national study to determine the true*
34 *productivity rate for manual flats sorting that is performed in associated*
35 *offices, stations and branches. Tr. 1/17 at 20-22.*

1 Despite witness's Mitchell's implication in the first citation above that our
2 level of cost understanding would support the proposed rates, the subsequent
3 two citations from witness Stralberg would seem to indicate otherwise. In these
4 citations, witness Stralberg discusses an issue he discovered with only one
5 input to the cost model, which, when changed, "sharply" increased the cost
6 estimates. He then went on to state that he is not aware of any study that
7 attempted to calculate the actual statistic in question.

8 This example illustrates one of the many issues a cost analyst must
9 resolve when developing any cost model. While the cost analyst always looks
10 for the best data available, he or she can, on occasion, come up empty handed.
11 In these cases, special studies⁸ may be required. The back drop to this process,
12 of course, is the context in which the cost data and cost models are being used.
13 Furthermore, it is not enough to simply find data; the results must also be
14 meaningful.

15
16 **A. THE GOAL OF MOST SPECIAL COST STUDIES IS TO CALCULATE**
17 **AVOIDED OR ADDITIONAL COSTS, NOT "BOTTOM-UP" COSTS**
18 **FOR SPECIFIC MAIL**

19 While many special cost studies may measure "total" cost estimates, such as
20 total mail processing unit cost estimates, the goal in a rate case, at the rate category or
21 product level, is to measure and/or evaluate the cost relationships between various
22 products. These measurements are typically expressed in the form of avoided costs or
23 additional costs. In most cases, especially those in which the availability of data may be
24 somewhat limited, it is preferable and easier to rely on more narrowly defined cost
25 studies that focus on measuring the impact of specific identified cost drivers.

26 First-Class Mail presort letters can be used as an example. For the past three
27 rate cases, Bulk Metered Mail (BMM) letters costs have been used as the official
28 "benchmark." Mail processing unit costs and delivery unit cost estimates have been
29 calculated in each case for this benchmark. Mail processing and delivery unit cost
30 estimates have also been calculated for each First-Class Mail presort letters rate

⁸ The term "special studies" as it is used here refers to studies that are conducted when a given statistic (e.g., productivity) is not readily available through established Postal Service data collection systems.

1 category. The difference between the total mail processing and delivery unit cost
2 estimate for the benchmark and the total mail processing and delivery unit cost
3 estimates for the presort letters rate categories has served as the cost basis for the
4 current discounts. In this example, the measured cost differences, or worksharing
5 related savings estimates, reflect the value of prebarcoding and presorting, which are
6 specific characteristics defining the presort letters rate categories. BMM letters, on the
7 other hand, are not required to be either presorted or prebarcoded.

8 The same principle holds true in cases where the Postal Service assesses
9 surcharges or fees. Business Reply Mail (BRM) can be used as an example in this
10 instance. The basis for the various BRM fees can be found in cost studies which
11 measure the additional counting, rating, billing, and sampling costs incurred by each
12 rate category. BRM is a subset of the First-Class single-piece mail stream. As such,
13 these additional costs represent those costs not typically incurred by non-BRM single-
14 piece mail pieces.

15 Once an analyst has completed a special cost study, the results are provided to
16 a pricing witness. In addition to considering the various ratemaking criteria outlined in
17 Title 39 of the United States Code, the pricing witness relies on the cost data to develop
18 specific rate proposals. In cases where a worksharing related savings estimate or
19 additional cost estimate has been calculated, the pricing witness would determine an
20 appropriate "pass through" to achieve rate design goals. This process has generally
21 been followed for the past several rate cases and adheres to the Commission's pricing
22 principles.⁹

23

24 **B. THE DOCKET NO. R2001-1 FLATS COST STUDIES WERE APPROPRIATE**
25 **GIVEN THE CONTEXT IN WHICH THEY WERE USED**

26 This same approach was applied to the flats cost studies, including the
27 Periodicals cost studies, in Docket No. R2001-1. While the Periodicals subclasses have
28 not historically had an official "benchmark," the pricing witness relied on cost estimates
29 by rate category when developing the rate design. These estimates were used as a tool

⁹ PRC Op. MC95-1, page IV-94 to IV-138.

1 in the rate design process to ensure that the cost differences related to prebarcoding
2 and presorting were reflected in the proposed rates.

3 With the development of such estimates as the end goal, I developed a base
4 Periodicals cost model that reflected the mail processing operations through which
5 Periodicals flats were processed up to the point that they were presented to the mail
6 carrier.¹⁰ The model cost estimates were then used, in essence, to de-average the CRA
7 mail processing unit cost estimate for Outside County Periodicals.

8 While the identical base cost model was used to develop estimates for all rate
9 categories, the mail characteristics data upon which each rate category cost model was
10 based were not identical. As witness Stralberg described, the manner in which the various
11 Periodicals and Standard Mail flats rates are assessed can be somewhat confusing.¹¹
12 For all palletized flats, mail pieces are assessed the appropriate presort rate based on
13 the bundle presort level. For flats entered in sacks, the rate is based on the bundle
14 presort level only when the mail pieces are prebarcoded. For non-barcoded mail pieces
15 entered in sacks, the rate is based on the container (sack) presort level.

16 To the extent that these rate application rules may be problematic for the Postal
17 Service and/or mailers, the proposed rate structure presented in this case is not the
18 only option to rectify the situation. Witness Stralberg acknowledged that mail
19 preparation rule changes could be revised as an alternative.¹² That point aside, the rate
20 application rules had a great influence on the cost estimates at the rate category level,
21 and did not necessarily result in cost estimates which could be used to isolate the cost
22 differences related to mailer presorting and prebarcoding efforts.

23 Consequently, at the request of the pricing witness, I developed a second set of
24 estimates in which the presort levels were held constant.¹³ For Periodicals, the
25 nonautomation entry profile was used for automation models as well, in order to provide
26 a more insightful cost comparison. The end result was a cost methodology and set of
27 cost estimates that were appropriate in the context in which they were used, but may
28 not have been appropriate as bottom-up cost estimates.

¹⁰ Docket No. R2001-1, USPS LR-J-61, pages 34 to 68.

¹¹ Docket No. C2004-1, Tr. 1/27 at 28 to Tr. 1/28 at 5.

¹² Docket No. C2004-1, Tr. 1/187.

¹³ Docket No. R2001-1, USPS-T-24, Section III.C.

1 **C. USPS LR-I-332 WAS NOT CREATED TO SUPPORT A GRID**
2 **RATE ANALYSIS**
3

4 The analysis conducted by witness Stralberg, however, may not necessarily be
5 appropriate in the context in which it has been used. The centerpiece of witness
6 Stralberg's testimony is a methodology similar to that relied upon by the Postal Service
7 to develop Docket No. R2000-1, USPS LR-I-332. Where possible, witness Stralberg
8 incorporated updated information from the subsequent case, Docket No. R2001-1.
9 Consequently, it is worth revisiting the origin of Docket No. R2000-1, USPS LR-I-332.

10 In Docket No. R2000-1, the Commission expressed its concern about rising
11 Periodicals costs and directed the Postal Service to provide cost data and rationales for
12 various First-Class Mail, Periodicals and Standard Mail subclasses in Presiding Officer's
13 Information Request (POIR) No. 4. This POIR was filed on February 25, 2000. Postal
14 Service witness Smith responded to that request on March 17, 2000. Library reference
15 USPS LR-I-233 was filed in conjunction with that response.

16 On March 28, 2000, the Commission issued Order No. 1289, which directed the
17 Postal Service to "present detailed evidence explaining the causes of the trend in costs
18 of processing Periodicals from a witness qualified to respond to participants' questions
19 on the topic." It was requested that the witness have high-level managerial
20 responsibility over flats operations.

21 In response to Order No. 1289, the Postal Service filed two supplemental
22 testimonies on April 17, 2000. Witness O'Tormey (USPS-ST-42) discussed the broad
23 policy issues impacting Periodicals costs from a Headquarters management
24 perspective. Witness Unger (USPS-ST-43) discussed Periodicals cost issues from a
25 field management perspective.

26 In MPA/USPS-ST42-4, witness O'Tormey was asked to identify and quantify mail
27 preparation changes that were being planned. In his response, witness O'Tormey
28 stated:

29 The Postal Service is currently considering changes to mail preparation
30 for Periodicals which include: (1) allowing barcoded and non-barcoded
31 bundles in the same sack; (2) elimination of CRRT skin sacks; (3)
32 requiring that basic rate carrier route Periodicals mail be in line-of travel
33 (LOT) sequence; and, (4) mandatory compliance with the L001 option.

1
2 Witness O'Tormey went on to identify savings estimates of \$8 million for item (1)
3 and \$3.6 million for item (4). In the response to MPA/USPS-ST42-5, he identified a
4 savings estimate of \$1.6 million for item (2). Library reference I-332 was filed
5 simultaneously and contained the analysis supporting those estimates.

6 This library reference was used to develop broad savings estimates and was not
7 intended to measure cost differences at the rate category level. The use of this library
8 reference as a cost basis for new rate categories may therefore not be valid.

9
10 **D. THE USE OF HISTORICAL RATE CASE DATA MAY NOT BE**
11 **APPROPRIATE FOR THE PURPOSES AT HAND**

12 While the Docket No. R2001-1 cost models were appropriate given the context in
13 which they were used, the reliance on these same data inputs in a USPS LR-I-332
14 analysis may not be appropriate, given that the goal in this case is to develop separate
15 and distinct "bottom-up" piece, bundle, and container costs.

16
17 **1. PIECE DISTRIBUTION COST ESTIMATES ARE RELIABLE**
18 **IN THE CONTEXT IN WHICH THEY HAVE BEEN USED, BUT**
19 **REPRESENT FLATS AVERAGES**

20
21 Many of the flats data contained in the Docket No. R2001-1 cost models, and
22 consequently, the cost models in this case, represent average data for all flats,
23 regardless of class. For example, the productivity figures by operation represent
24 average data because the Management Operating Data System (MODS) does not rely
25 on class-specific operation numbers. The same operation numbers are used for all
26 flats. The density data and accept rate data also represent average figures for all flats,
27 regardless of class.

28 The primary goal of the flats cost models in Docket No. R2001-1 was to develop
29 mail processing unit cost estimates by rate category, which the pricing witness could
30 then use to evaluate the cost impact of mailer prebarcoding and/or presorting activities.
31 After taking these cost differences into consideration, in conjunction with the CRA or roll
32 forward cost data specific to each class or subclass, the pricing witness then developed
33 rate proposals. Consequently, the use of average data to examine these activities did

1 not pose a significant risk. In this docket, the reliance on cost models that are based on
2 average data represents a greater risk if the goal is to develop "bottom-up"
3 disaggregated piece, bundle, and container rates for Periodicals flats.

4
5 **2. THE BUNDLE STUDIES RELIED UPON BY WITNESS**
6 **STRALBERG MAY NOT SUPPORT A GRID RATE**
7 **ANALYSIS**

8 The bundle sorting cost estimates may also not be appropriate as used in this
9 docket. In Docket No. R2000-1, two bundle-related studies were conducted. The first
10 study can be found in USPS LR-I-88. Some components of this study were based on
11 qualitative surveys and did not involve quantitative measurements. While some portions
12 of the study involved sampling activities performed at 50 sites, the time period over
13 which the data were collected was the fall of 1998. As the author of the summary report
14 stated on page 2, "The target population for this study was restricted to bundle
15 handlings during the early fall. This should be kept in mind when interpreting results of
16 this survey since there may be seasonal variations in manual bundle handling
17 productivities and handlings."

18 The second study was referenced by witness Stralberg in his testimony and can
19 be found in USPS LR-I-297. This library reference contained a joint bundle breakage
20 study conducted by the Postal Service and MTAC. While the study quantitatively
21 measured bundle breakage rates, it was very limited in scope. It was conducted at six
22 facilities for a limited time period. Furthermore, the study only measured breakage rates
23 when a sack or pallet was first opened. It did not measure breakage rates in
24 downstream bundle sorting operations.

25 I do not mean to imply that the results from these studies were useless. They
26 both provided meaningful data that could be incorporated into the cost model estimates.
27 As stated above, the use of these data in the cost models did not pose a great risk
28 because the primary function of the models was to isolate the cost impact of mailer
29 presorting and prebarcoding efforts. The use of these data in the Time Warner, et al.
30 analysis, however, is problematic, given that the goal of that analysis is to isolate
31 "bottom-up" bundle sorting costs for Periodicals flats.

1 the costs for moving containers, such as pallets or sacks, in a cross-docking operation
2 would also not be classified as weight related. The following interrogatory response
3 would seem to imply that witness Stralberg believes that at least a portion of pallet
4 costs are weight related.

5

6 Q: How fast does a forklift carrying a pallet travel if unimpeded by
7 congestion?

8

9 A: I don't know, and I rely on no assumption regarding the maximum
10 speed of a forklift. I would assume it depends on the weight of the pallet
11 carried as well as the strength of the motor used by a particular forklift.
12 (Docket No. C2004-1, Tr. 1/97)

13

14 It is unclear why the costs for moving containers full of bundles should be
15 considered weight related once the mail has been sorted into postal containers, but
16 container related for pallets and sacks that have not yet been opened.

17

18 **V. SUMMARY**

19 The current Outside County Periodicals rate structure offers rate incentives for
20 mailers that presort and/or prebarcode their mail. Mailers can both prebarcode and
21 presort a given mailing, but they are not required to do both. While some rate
22 categories reflect a combination of presorting and prebarcoding, the activities are not
23 causally linked; mailer presorting and prebarcoding efforts result in separate and
24 distinct savings to the Postal Service, even though the savings may be expressed in
25 aggregate form during a rate case.

26 The costs for containers, bundles, and individual pieces, however, are causally
27 linked, as confirmed by witness Stralberg.¹⁵ Consequently, the development of a rate
28 schedule based on separate "bottom-up" container, bundle, and piece costs could be
29 somewhat problematic. As discussed above, the application of average rate case data
30 in this docket may not be appropriate, given that the results measured in a general rate
31 case are used for different purposes. Furthermore, the use of the Docket No. R2000-1

¹⁵ Docket No. C2004-1, Tr. 1/188-189.

1 USPS LR-I-332 model to support the analysis in this docket also may not be
2 appropriate, given that it was used to support a broader analysis in that docket.

3 While it is not always possible to recognize all cost drivers in the rate schedule
4 for a given postal product, the Postal Service has made attempts in recent cases to
5 expand the scope of worksharing, such as the implementation of the pallet discount in
6 Docket No. R2001-1. As with other worksharing discounts, the analysis on which the
7 pallet discount was based measured cost differences between pallets and sacks, using
8 data from two testimonies in the previous rate case.¹⁶ Witness Taufique was able to
9 mitigate the risk associated with this new rate category by relying on a moderate
10 passthrough.¹⁷ Furthermore, as described by witness Tang (USPS-RT-2, Section I), the
11 impact on all mailers must also be considered before significant structural changes,
12 such as those proposed in this docket, are implemented.

¹⁶ Docket No. R2001-1, USPS LR-J-100.

¹⁷ Docket No. R2001-1, USPS-T-34, page 11 at 10.