

USPS-T-1

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BANK OF AMERICA CORPORATION

Docket No. MC2007-1

**DIRECT TESTIMONY OF ALI AYUB
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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1 **DIRECT TESTIMONY OF ALI AYUB**
2 **ON BEHALF OF**
3 **UNITED STATES POSTAL SERVICE**
4

5 My name is Ali Ayub. I am an Economist in the Pricing Strategy group of the
6 United States Postal Service. I submit this testimony to the Commission in support of
7 the Request of the Postal Service for issuance of a decision recommending
8 implementation of the Negotiated Service Agreement (“NSA”) executed by the Postal
9 Service and Bank of America Corporation (“Bank of America”, “BAC”, or “the Bank”) on
10 January 10, 2007.

11 **I. INTRODUCTION**

12 **A. Autobiographical Sketch**

13 I joined the Postal Service in 2001 and have been an Economist in the Pricing
14 Strategy group since January 2002. I provided financial analysis support for the Capital
15 One NSA in Docket No. MC2002-2, and was responsible for implementation of the
16 Governors' Decision in that case. I also developed performance metrics and reporting
17 tools for that NSA during its subsequent term.

18 I was part of the negotiating team that developed the Discover NSA proposal in
19 Docket No. MC2004-4. I was responsible for all financial analysis presented in the
20 Postal Service filing in that case, and I sponsored the analysis as a testifying witness.

21 In the Bank One NSA, MC2004-3, I provided negotiation and financial analysis
22 support for the Postal Service. I have been the main point of contact for the Postal
23 Service in NSA discussions with financial institutions for the past three years.

1 I earned a Bachelor's Degree in Finance and Information Systems and a
2 Master's of Business Administration ("MBA") from the George Washington University.
3 While pursuing my MBA, I was also a Chairman's Fellow at the Export-Import Bank
4 ("EXIM") of the United States. I am currently a candidate for the Level III portion of the
5 Chartered Financial Analyst ("CFA") Examination.

6 **B. Summary Of Testimony**

7 The purpose of my testimony is to describe the policy and business
8 considerations that support the proposed NSA between the Postal Service and BAC. In
9 so doing, I describe how BAC's use of the mail and the Bank's quality control process
10 creates unique opportunities to accomplish several important shared objectives.

11 Section II of this testimony describes the background of the Postal Service's NSA
12 program, and summarizes how this NSA differs from all previous NSAs.

13 Section III describes the principal terms and conditions of the NSA, including the
14 operational changes that BAC has committed to make, and the rate incentives that the
15 Postal Service has agreed to offer for further improvements in address quality and mail
16 processing performance from the voluntary actions of BAC.

17 Section IV describes the methodology used by the Postal Service to estimate the
18 cost savings that the Postal Service expects to gain from additional improvements in
19 mail processing performance by BAC.

20 Section V describes rate design, both passthroughs and rate schedules.

21 Section VI provides a financial analysis of the NSA.

22 Section VII describes the key elements of the data collection plan that will be
23 used to monitor performance and insulate the Postal Service from risk.

1 Section VIII explains why the NSA should not harm competition between the
2 USPS and its competitors, or the downstream competition between BAC and its
3 competitors.

4 Section IX explains why the NSA is consistent with the rate and classification
5 criteria of the Postal Reorganization Act.

6 **II. BACKGROUND OF THE PROPOSED NSA**

7 In the Opinion and Recommended Decision in Docket MC2002-2, the Capital
8 One NSA case, the Postal Rate Commission held that NSAs are consistent with the
9 Postal Reorganization Act if contribution positive to the Postal Service, not unduly
10 discriminatory among mailers, and unlikely to damage or impact competition between
11 the NSA co-proponent and other mailers.

12 In the nearly four years since then, the Postal Service has implemented four
13 additional NSAs, three of which were functionally equivalent to the Capital One NSA.¹
14 These NSAs have demonstrated that negotiated pricing can produce gains in
15 contribution. The Postal Service continues to believe in the importance of price
16 differentiation among customers and in the role of negotiated pricing to improve
17 contribution.

18 Beyond the measurable financial impacts of NSAs, there are more subtle
19 benefits that only direct negotiations with individual mailers are likely to realize. The use
20 of a contract to bind parties in a collaborative enterprise encourages a collaborative

¹ Functionally equivalent NSAs include Docket Nos. MC2004-3 (Bank One Corporation), MC2004-4 (Discover Financial Services, Inc.), and MC2005-2 (HSBC North American Holdings Inc.). The Commission recommended extending the Capital One NSA for one year in Docket No. MC2006-6. Docket No. MC2005-3 (Bookspan) was litigated under the PRC's rules for baseline NSAs.

1 mindset. NSAs mark a sharp contrast to the traditional process, in which customers
2 interact with the Postal Service only through proceedings before the Postal Regulatory
3 Commission, published tariff rules and related procedures. The instant agreement with
4 BAC illustrates how direct discussions between the Postal Service and an individual
5 customer can lead to novel and innovative ideas having a potential for broad
6 applicability.

7 The BAC NSA differs from previous NSA proposals in two general respects.
8 First, previous NSA proposals included incentives designed to encourage the mailer to
9 increase mail volume. The BAC NSA does not: it is a pure cost-savings NSA. Second,
10 the BAC NSA is designed to achieve cost savings not by mandating specific changes in
11 mailing practices in the expectation of reducing the Postal Service's costs, but by
12 offering incentives to BAC for the desired end result: measurable reductions in the cost
13 to process BAC mail. The purpose of this NSA is to give BAC incentives to reduce—by
14 whatever means that BAC believes are cost-effective—the percentage of BAC First-
15 Class Mail and Standard Mail letter-rated volume that cannot be read or accepted by
16 USPS mail processing equipment, or which must be returned, forwarded, or discarded
17 because it is undeliverable-as-addressed (“UAA”). The success of this NSA depends
18 on the Postal Service's ability to induce and then measure actual improvements in
19 performance rather than simply mandating process changes.

20 This is a marked departure from typical practice, in which the Postal Service
21 establishes qualifying regulations for customers wishing to avail themselves of
22 worksharing incentives. In general, these qualifying regulations specify documented
23 process changes, such as compliance with Move Update requirements, which
24 customers must perform to qualify for automation discounts. This traditional approach,

1 while implicitly assuming a direct relationship between the activities performed and a
2 reduction in Postal Service costs, does not link the incentives directly to the latter end
3 result. Linking incentives directly to the end result of a reduction in the Postal Service's
4 workload and costs, rather than to the intermediate step of the mailer's process
5 changes, reflects the difference in substance between this NSA and traditional
6 workshare incentives.

7 A pay-for-performance arrangement has become practical for the first time
8 because (1) advances in barcoding technology and standards now enable
9 comprehensive tracking of mail through the postal system with sufficient detail to
10 provide accurate and reliable measure on *actual* performance, and (2) BAC is willing to
11 adopt the practices needed to make the measurement systems function.

12 Specifically, BAC has agreed to utilize the Four-State barcode on all of its letter-
13 rated First-Class Mail and Standard Mail mailpieces and to employ a unique customer
14 identifier (the Business Entity Identifier or "BEI") within each barcode. These markings
15 will enable the Postal Service to record, track, and measure every piece of BAC mail
16 that is handled on automated equipment. This enhanced visibility of Bank of America's
17 mail will allow the Postal Service to observe the percentage of BAC mail that actually is
18 read and accepted on USPS mail processing equipment, and the percentages of BAC
19 mail that actually are forwarded or returned or discarded as undeliverable.

20 It is important to note that the Postal Service will not pay any incentives except
21 for actual and measurable improvements in Bank of America's mail processing
22 performance over the documented baselines.

23 Apart from the direct financial benefits of the proposed arrangement, these
24 enhanced tracking capabilities will allow the Postal Service to improve its knowledge of

1 how BAC uses mail and to accumulate information about readability, forwarding, and
2 returns. This information will enable the Postal Service to design improved worksharing
3 incentives by shedding more light on the effect of better address quality on mail
4 processing, and will encourage mailers to take additional steps to lower their UAA rates
5 and improve the overall quality of their mail preparation and design.

6 Notwithstanding the advantages of this NSA, I would like to emphasize that
7 automation discounts and other worksharing incentives helped to develop a sound and
8 efficient mailing industry and remain important features of the Postal Service's pricing
9 structure. This Agreement is not intended to undermine the traditional basis for
10 qualification standards.

11 **III. SPECIFIC TERMS AND CONDITIONS OF THE NSA**

12 **A. Overview of the Structure of the NSA**

13 The Agreement between USPS and BAC, reproduced as Attachment F to the
14 Request in this case, contains all of the relevant terms and conditions to which the two
15 parties have agreed. In general, the Postal Service intends to encourage Bank of
16 America to undertake activities that will reduce the cost to the Postal Service of
17 processing BAC's letter-rated First-Class Mail and Standard Mail. As specified in the
18 contract, both Parties intend to achieve these goals largely through performance-based
19 incentives, under which Bank of America will receive compensation only if its efforts
20 reduce Postal Service costs. The contract provides BAC the flexibility to use address
21 improvement processes only if BAC's managers believe that the additional use will be
22 cost-effective. However, this flexibility does not excuse BAC from compliance with
23 either existing or future mail preparation requirements for automation mail.

1 **B. Mandatory Operational Commitments**

2 The NSA includes several operational practices that BAC must implement.
 3 These include implementation of the *PostalOne!* infrastructure; use of CONFIRM and
 4 Seamless Acceptance; use of Four-State Barcodes on Bank of America mail entered
 5 under a qualifying permit number as letter-rated First-Class Mail or Standard Mail; and
 6 placement of Four-State Barcodes on Business Reply Mail, Qualified Business Reply
 7 Mail, and Courtesy Reply Mail pieces enclosed in bills, invoices and other mailpieces
 8 mailed by the bank

9 **1. Four-State Barcodes**

10 The Four-State Barcode (or “OneCode”) is a new, high-capacity barcode design
 11 recently deployed by the Postal Service. In addition to improving mail processing the
 12 OneCode barcode allows the mailer to assign a unique identifying number to individual
 13 mailpieces. This number would contain information identifying the sender and the
 14 destination address of a specific mailpiece, thereby enabling the mailer to track and
 15 trace individual mailpieces. The Four-State Barcode is a central element of the Postal
 16 Service’s Intelligent Mail and Address Quality” (“IMAQ”) strategy, and is intended to
 17 offer substantial improvements over the POSTNET barcode currently in widespread
 18 use.

19 Bank of America agrees to use the Four-State Barcode on all Bank of America
 20 Mail entered under a Qualifying Permit Number as letter-rated First-Class Mail or
 21 Standard Mail. NSA § III.A. With certain exceptions set forth in this NSA, BAC also
 22 agrees to use Four-State Barcodes on BRM, QBRM, and CRM pieces enclosed in bills,
 23 invoices and other mailpieces mailed by the Bank. NSA § III.G.²

² Business reply mail service, defined in Domestic Mail Manual (“DMM”) 507.8.0 et seq., enables a permit holder to receive First-Class Mail and Priority Mail back from

1 The use of the Four-State Barcode also should result in improvements in mail
2 processing and delivery and should allow the Postal Service to increase the amount of
3 mail that is delivery-point sequenced (“DPS”). Furthermore, the availability of additional
4 characters on the Four-State Barcode enables a sender to uniquely identify its mail
5 through the use of a Business Entity Identifier. This identification will provide visibility to
6 every piece of mail in a mailing and will permit tracking pieces through the Postal
7 Service’s automated network. The unique tracking of each piece is the feature that will
8 enable USPS to measure the improvements intended by the agreement.

9 However, the Four-State Barcode itself will not drive all the measured
10 improvement in BAC’s DPS percentage. Rather, we expect that much of the
11 improvement will result from the adoption of additional process changes that Bank of
12 America’s managers voluntarily adopt to improve address quality because those
13 changes are cost-effective.

14 **2. OneCode ACS**

15 ACS (“Address Change Service”) is an automated electronic process offered by
16 the Postal Service to provide mailers with notices of address correction or the reason for
17 nondelivery. See DMM 507.3.2. OneCode ACS is a functionality of OneCode that
18 facilitates electronic ACS by enabling the mailer to specify when and how to notify the

customers; the mail owner pays postage and a per piece fee only for the mailpieces returned.

QBRM is a subset of Business Reply Mail available for specific automation-compatible letter-rated mailpieces. Mailpieces that qualify as QBRM receive a lower automation postage rate and reduced per piece fees than ordinary BRM. See DMM 507.8.2-8.4.

Courtesy reply mail, defined in DMM 201.3.14.2, consists of reply mail other than BRM or meter reply mail (“MRM”) enclosed in other mail, with or without prepayment of postage, for return to the address on the reply piece.

1 mailer (or list owner), and what to do with the mailpiece, when it needs to be forwarded
2 or is undeliverable-as-addressed.

3 With certain exceptions, Bank of America has agreed to place OneCode ACS
4 markings on all its mail entered under a Qualifying Permit Number as letter-rated First-
5 Class Mail and Standard Mail. NSA § III.B. In contrast to previous NSAs, however, BAC
6 will receive no discount from the fees normally charged by the Postal Service for ACS.
7 NSA § IV.B.3.

8 **3. CONFIRM**

9 CONFIRM Service tracks individual mailpieces, based on the scanning of
10 barcoded information on the mailpieces, and is offered by the Postal Service pursuant
11 to DMM 503.13.0 *et seq.* With certain specified exceptions, BAC has agreed to activate
12 OneCode CONFIRM service, when using the Four-State Barcode, on all its mail entered
13 under a Qualifying Permit Number as letter-rated First-Class Mail and Standard Mail.
14 NSA § III.A. BAC will pay the published rates for CONFIRM.

15 The CONFIRM markings will enable the Postal Service to capture the scan data
16 needed to measure performance for read and accept rates. In addition to facilitating
17 measurement, the presence of CONFIRM codes on over three billion pieces of letter
18 mail will provide the Postal Service with additional service and operational information
19 for internal analysis to track and evaluate performance standards.

20 **4. Seamless Acceptance**

21 Seamless Acceptance is a computerized Web-based system of hardware,
22 software and protocols, currently under development by the Postal Service, that is
23 intended to bypass or automate most of the steps involved in acceptance of bulk
24 mailings by the Postal Service. Instead of a hard copy mailing statement, the mailer will

1 submit an electronic manifest to the Postal Service furnishing all mailing details. The
2 Postal Service will verify the mailer's information using active and passive scanning
3 methods to scan containers and mailpieces in the mailing.

4 Scan data will be compared against the mailer's electronic manifest to verify that
5 the electronic documentation submitted matches the physical mailing. Seamless
6 Acceptance will create reports to display mail preparation verification results and will
7 allow for an automated reconciliation process.

8 The term "seamless acceptance" encompasses a number of different initiatives
9 currently underway within the Postal Service. Taken as a whole, these initiatives have a
10 number of objectives:

- 11 • Conduct payment and acceptance transactions electronically to
12 improve accuracy and reduce transaction costs.
- 13 • Employ acceptance and preparation practices that will facilitate the
14 tracking of mail and associated materials throughout the USPS
15 distribution network.
- 16 • Ensure higher quality levels.
- 17 • Improve reporting and account management for both USPS and its
18 customers.

19 As part of the Agreement, and subject to the exceptions set forth in the
20 Agreement, BAC has agreed to incorporate the following changes in its mail
21 presentment practices:

- 22 • Bank of America will use the Four-State Barcode on all of its letter-
23 rated mailpieces, and the Enhanced Distribution Label ("EDL") where
24 applicable, and optionally, the Mailer Placard to identify uniquely all

1 mailpieces, trays, and pallets in mailings. Each mailpiece will include a
2 unique Four-State Barcode including the delivery point. Each tray will
3 be labeled with a unique EDL. Each pallet will be labeled with a
4 unique Surface Visibility barcode.

- 5 • Bank of America will use the Centralized Automated Payment System
6 (“CAPS”) for all transactions.
- 7 • Bank of America will present electronic manifest for all pallets, trays
8 and pieces in either a Mail.dat or web services file.
- 9 • Bank of America will use the *PostalOne!*® Transportation Management
10 system to assign surface or air transportation from its mailing facilities.
11 *PostalOne! Transportation Management (TM)* provides a Supply Chain
12 Management solution to customers by integrating USPS transportation
13 and induction processes with external mailer production processes.
14 Automated and Desktop shipping systems are deployed into external
15 customer mail production facilities to book air and surface
16 transportation assignments for letter trays. The shipping system scans
17 the tray label, captures the weight and interfaces with the USPS
18 Surface-Air Management System (S-AMS) to assign the least-cost
19 routing that still meets USPS service commitments.
- 20 • Bank of America will submit electronic mail documentation to
21 PostalOne!, including unique barcode data for all letter-rated
22 mailpieces and trays, using Mail.dat® files or Web Services.
- 23 • Bank of America will use its unique Business Entity Identifier (“BEI”) on
24 all mailpieces entered under Qualifying Permit Numbers, including

1 letter-rated mailpieces entered by another company on behalf of Bank
2 of America. The BEI will be designated by use of Bank of America's
3 unique Permit imprint/indicia or a unique IBI meter indicia. NSA § III.E.

4 **5. FAST and eDropship**

5 FAST (or "Facility Access and Shipment Tracking System") is an Internet-based
6 appointment system for entry of dropshipped (or destination entered) mail. eDropShip
7 is a Web-based system, currently still in the design and development stage, that will
8 allow mailers to employ an electronic process for drop-ship mailings.

9 Subject to the conditions and exceptions set forth at NSA § III.F, Bank of America
10 has agreed to use the automated scheduling services provided to the FAST system
11 through the PostalOne! electronic data exchange services for all Standard Mail
12 mailpieces. In addition to the quantifiable savings that USPS will capture as a result of
13 this agreement, BAC has agreed to a number of steps that will help the Postal Service
14 achieve greater efficiency. BAC will also participate in eDropship for First-Class Mail
15 that is drop-shipped. The Facilities Access and Shipment Tracking (FAST) and
16 eDropship programs allow participating customers to schedule the arrival of their
17 Standard Mail shipments at the relevant USPS facility.

18 By agreeing to require its vendors to participate in these efforts, BAC will,
19 through the Agreement, enable USPS to schedule necessary personnel and
20 transportation more effectively.

21 After eDropship features become available for First-Class Mail, BAC will
22 implement use of the service for entry of letter-rated First-Class Mail.

1 **C. Performance Based Incentives**

2 As noted above, this agreement does not require the Postal Service to pay any
3 incentives to BAC unless and until it achieves a measurable improvement in actual mail
4 processing performance—i.e., the read and accept rate of mail processing, and the
5 percentage of UAA mail that must be returned, forwarded, or destroyed. While BAC
6 may choose the processes to achieve these results, BAC’s incentives will be tied to the
7 results achieved, not the processes chosen. Limiting the incentives to improvements
8 over the baseline values insulates the Postal Service from financial risk by entitling BAC
9 to incentive rebates only if the Postal Service recognizes savings.

10 **1. Improvement in mail processing read rates**

11 In Sections IV.C and IV.F of the NSA, the Postal Service is offering rate
12 incentives to Bank of America for improvements in the read/accept rates of letter-rated
13 mailpieces entered by the Bank at First-Class Mail and Standard Mail rates.
14 Improvement will be measured by increases in read/accept rates for BAC mail. The
15 purpose of these incentives is to encourage BAC to improve the readability of the
16 barcodes it places on mail. This is the first time that company-specific mail performance
17 data will be available to the co-proponents of an NSA. Access to this data will enable
18 both parties to the NSA to measure and manage all of the matrices relevant to the
19 Agreement. The exact savings and the associated refunds will be dependant upon
20 BAC’s success in making the planned quality improvements described by BAC witness
21 Richard Jones (BAC-T-1 at 8-10).

22 **2. Reduction in the percentage of mail that is undeliverable-as-**
23 **addressed (“UAA”)**

24 While the BAC Agreement departs from previous NSAs, it shares with those
25 other NSAs the goal of reducing the volume of mail that must be forwarded or returned

1 as undeliverable. Incentives to reduce the volume of forwarded and returned mail were
2 key components of the Capital One NSA and its progeny. The redesign of the fee
3 structure proposed by the Postal Service for Address Change Service (“ACS”) in Docket
4 No. R2006-1 also is intended to encourage adoption of practices that would reduce
5 UAA and forwarded volume. In addition, BAC will pay the published rates for ACS,
6 unlike previous NSAs, in which such rates were waived.

7 The UAA-related rate incentives in the present agreement are based on a
8 schedule of rate incentives for reductions in the percentage of BAC’s First-Class Mail
9 that must be forwarded or returned because it is undeliverable-as-addressed, and on a
10 schedule of percentage of BAC’s Standard Mail that must be discarded as
11 undeliverable. NSA §§ IV.D, E and G. The discount schedules are reproduced in
12 Attachment B to the Request in this case.

13 **D. Termination and Penalty Clauses**

14 As with previous NSAs, under certain specified conditions, the Postal Service
15 and the co-proponent have the right to terminate the contract. The termination and
16 penalty clauses provide both parties protection from the impact of external variables on
17 any of the value components of the agreement. See NSA § V.E.

18 **IV. METHODOLOGY OF ESTIMATING COST SAVINGS**

19 **A. Introduction and Summary**

20 This section describes how the Postal Service estimated the cost savings that
21 could result from the different components of the NSA. Where possible, I relied on
22 litigated cost models from Docket No. R2006-1 to estimate the potential cost savings.
23 Instances where changes were made to a litigated model are identified.

1 These savings have three components: improvements in the read/accept rate of
2 Bank of America mail processed by the Postal Service which will reduce mail
3 processing and in-office carrier costs; reductions in the volume of Bank of America First-
4 Class Mail that must be forwarded or returned because the mail is undeliverable-as-
5 addressed; and reductions in the volume of Bank of America Standard Mail that the
6 Postal Service must discard because it is undeliverable-as- addressed.

7 Cost savings estimates use BAC mail volumes and characteristics, rate case unit
8 cost estimates from Docket No. R2006-1, and baselines for mail processing read rates,
9 forward and return rates for First-Class Mail, and UAA rates for Standard Mail.

10 The return and forward rates for First-Class Mail are specific to Bank of America
11 and are provided by it. The Postal Service independently verified the reasonableness of
12 these figures by utilizing the same processes and customer records used in previous
13 cases to validate return rates and estimated forwarded volumes.

14 In the absence of BAC-specific data on read and accept rates, I used the system-
15 wide averages for these baseline values. There is no reason to believe that any
16 individual mailer's read and accept rates vary significantly from the system-wide
17 average, since read and accept rates are likely to depend primarily on the generation of
18 barcoding protocol used by the mailer and the scanning equipment used by the Postal
19 Service—factors that are unlikely to generate wide mailer-to-mailer variations.

20 Finally, I calculated the reductions in costs for the functional areas described
21 above that would result from improvements in these performance measures. By
22 comparing the baseline costs with the costs at various levels of improvement, I
23 determined the related savings. Appendix A provides the models I used, together with
24 the input data, the baselines, and the assumptions. The following subsections

1 summarize these calculations for each dimension of address quality improvement that
2 entitles BAC to discounts under the NSA.

3 **B. Reduction In The Cost Of Processing First-Class Mail**

4 As discussed previously, the NSA will offer BAC discounts for process
5 improvements that measurably improve the Postal Service's read and accept rates for
6 BAC's First-Class Mail and for increases in DPS volumes of mail.

7 **1. Determination of baseline value**

8 The baseline value from which incremental improvements in mail processing
9 shall be computed is a read/accept rate of 96.8 percent. NSA § IV.C.2. The
10 read/accept rate is defined as the total number of Bank of America letter-rated First-
11 Class Mail mailpieces that are read and accepted during their first pass through Postal
12 Service mail sorting equipment, divided by the total number of letter-rated First-Class
13 Mail mailpieces of Bank of America Mail that receive a first pass through Postal Service
14 mail sorting equipment during the same quarter. See NSA § IV.C.3.a and b.

15 As noted previously, neither the Postal Service nor BAC have BAC-specific data
16 on current read and accept rates for BAC First-Class Mail volume. For the reasons
17 noted above, however, we believe the 96.8 percent accept rates derived from USPS-
18 LR-L-110 in Docket No. R2006-1 adequately approximate BAC First-Class Mail read
19 and accept rates.

20 I also expect that the improvements in read and accept rates also will lead to
21 delivery savings resulting from an increase in the percentage of First-Class Mail volume
22 that is successfully sorted to the delivery point sequence ("DPS"). These improvements
23 will be measured in the data collection plan and monitored by the Pricing Strategy
24 group.

1 **2. Baseline costs**

2 There are two distinct cost impacts from improvements in read and accept
3 rates. The first is reflected by mail processing savings, and the second by delivery
4 savings.

5 Mail processing savings are based on the cost methodology used in USPS-LR-L-
6 110. For the purposes of this calculation, I used the cost identified in USPS-LR-L-110
7 as the baseline cost. Next, I calculated the savings per piece, by rate category,
8 associated with increased read and accept rates using a fixed CRA adjustment. The
9 results of this analysis are identified on the Tab Savings – FCM MP in Appendix A.

10 Delivery savings are based on USPS-LR-L-67 in Docket No. R2006-1. The
11 estimated savings are the difference between cased and non-cased mail pieces for rural
12 and city carriers associated with changes in the DPS percentage. The only change
13 from the procedure used in USPS-LR-L-67 was that the costs for casing were adjusted
14 and reduced to include only the costs of casing. The costs of “casing” reported in
15 USPS-LR-L-67 included costs that must be removed to obtain the “casing” costs
16 because the original cost number includes fixed activities and processes. The results of
17 this analysis are presented in Appendix A, Tab Total FCM Delivery Savings.

18 **3. Savings from improved performance**

19 The estimated cost savings to the Postal Service over the duration of the
20 agreement from specified improvements in read/accept rates of Bank of America mail is
21 \$8.1 million in mail processing operations and \$1.6 million in delivery operations.

22 **C. Cost Savings From Reducing The Volume Of UAA First-Class Mail**
23 **That The USPS Must Return**

24 As noted above, the NSA will offer discounts to BAC for reducing the percentage
25 of BAC First-Class Mail that the USPS must return because the mail is undeliverable-

1 as-addressed. The agreement recognizes the difference in UAA characteristics for
2 different types of BAC mail volumes.

3 The agreement places BAC First-Class Mail into two different schedules.
4 “Schedule A First-Class Mail” consists primarily of account statements, benefit
5 statements, “plastic” (card) mailings, and other personal correspondence with existing
6 customers. See NSA § II.DD. “Schedule B First-Class Mail” consists generally of
7 solicitation mail and other non-personalized First-Class Mail. *Id.*, § II.EE.

8 BAC has agreed to waive physical return of at least ten percent of Schedule A
9 First-Class Mail volume, all Schedule B First-Class Mail, and all Standard Mail volume.
10 For these pieces, the estimated saving is the difference in cost between physical returns
11 and electronic returns. For mail which BAC has not waived physical return rights, the
12 savings are the costs saved by the correction of the bad addresses by BAC that will
13 reduce future returns.

14 **1. Determination of baseline value**

15 Bank of America has agreed to waive physical return of at least ten percent of
16 Schedule A First-Class Mail, all Schedule B First-Class Mail, and all Standard Mail.
17 NSA § III.D.1.

18 The baseline UAA rates from which incremental improvement will be computed
19 are 0.7 percent for Schedule A First-Class Mail and 2.7 percent For Schedule B First-
20 Class Mail. These return rates are based on reported BAC results.

21 **2. Baseline costs**

22 Calculation of the savings from eliminating UAA pieces is similar to calculation of
23 the cost savings in previous NSAs. The Postal Service will recognize immediate savings
24 from the substitution of electronic notices provided under ACS in place of manual

1 returns. However, unlike previous NSAs, the Postal Service will recognize savings from
2 *measured* decreases in UAA return volume, which will result in fewer UAA pieces in
3 future years.

4 The cost-savings calculations are shown in Appendix A on the Tabs
5 Savings – FCM OPS Returns and Savings – FCM Mkt Returns.

6 **3. Savings from improved performance**

7 As noted previously, there are two separate incentive structures: one for
8 Schedule A (largely operations mail), and another for Schedule B (largely marketing
9 mail). This separation insulates the Postal Service from the risk that BAC could reduce
10 its overall UAA volume simply by decreasing the amount of its marketing mail, which
11 has a higher UAA rate than its operations mail.

12 The estimated savings are \$0.7 million for the Schedule A volume and \$1.5
13 million for the Schedule B volume over the three years of the agreement, based on the
14 improvements forecast by BAC witness Jones.

15 **D. Reduction In The Cost Of Forwarding UAA First-Class Mail**

16 The NSA offers BAC discounts for reducing the volume of BAC mailpieces that
17 must be forwarded. These discounts were calculated as follows:

18 **1. Determination of baseline value**

19 The baseline value from which incremental improvements in forwarding rates will
20 be calculated for Bank of America First-Class Mail is a forwarding rate of 1.7 percent.
21 NSA § IV.C.E. This is a BAC-specific value based on NCOA runs for BAC First-Class
22 Mail.

1 **2. Baseline costs**

2 The Postal Service will provide ACS notices on all BAC First-Class Mail pieces
3 with the ACS service. The Postal Service incurs a small cost per forwarding notice.
4 However, BAC will receive incentives for decreases in the forwarding rate of its mail,
5 and a measurable decrease will translate into savings for the Postal Service by
6 eliminating forwards in future years. If there is no measurable improvement, the only
7 financial exposure to the Postal Service is the cost of the ACS notice. The USPS,
8 however, would face that risk with or without the NSA, because mailers are entitled to
9 two free ACS notices per address without charge in many circumstances.

10 **3. Savings from improved performance**

11 The tab titled “FCM Forward Savings” of Appendix A shows the expected savings
12 from reducing the number of BAC mailpieces that will have to be forwarded over the
13 three years of the Agreement. Estimated savings are \$0.7 million.

14 **E. Reduction In The Cost Of Processing Standard Mail**

15 As discussed previously, the Postal Service will offer BAC discounts for process
16 improvements that cause an improvement in the read and accept rates for BAC’s
17 Standard Mail volumes.

18 Neither the Postal Service nor BAC have actual read and accept rates for BAC’s
19 Standard Mail volume. The 96.9 percent accept rate is used in my calculations as a
20 proxy baseline for BAC Standard Mail read and accept rates.

21 It is anticipated that improvements in read and accept rates for Standard Mail will
22 result in delivery savings that parallel those for First-Class Mail. Improvements will be
23 measured in accord with the data collection plan and will be monitored by the Pricing
24 Strategy group.

1 **1. Determination of baseline value**

2 The baseline value from which incremental improvements in mail processing
3 performance will be computed is a read/accept rate of 96.9 percent. NSA § IV.F.2. The
4 read/accept rate is defined as the total number of Bank of America letter-rated Standard
5 Mail mailpieces that are read and accepted during their first pass through Postal Service
6 mail sorting equipment, divided by the total number of letter-rated Standard Mail
7 mailpieces of Bank of America Mail that receive a first pass through Postal Service mail
8 sorting equipment during the same quarter. See NSA §§ IV.F.3.a and IV.F.3.b.

9 Neither the Postal Service nor BAC have BAC-specific data on current read and
10 accept rates for BAC's Standard Mail volume. The 96.9 percent accept rate derived
11 from USPS-LR-L-110 is used in my calculations as an estimate for BAC Standard Mail
12 read and accept rates.

13 **2. Baseline costs**

14 The costs generated when Standard Mail is not read and accepted by Postal
15 Service mail processing equipment are set forth in Appendix A. The relevant values are
16 based on USPS- LR-L-67 and 110 in Docket No. R2006-1.

17 **3. Savings from improved performance**

18 The mail processing savings and delivery savings were calculated in exactly the
19 same manner as for First-Class Mail. The estimated cost savings are \$9.8 million for
20 mail processing and \$1.6 million for delivery.

21 **F. Reduction In The Cost of Disposing Of UAA Standard Mail**

22 Unlike First-Class Mail, Standard Mail generally is disposed of when the Postal
23 Service cannot deliver it as addressed. The NSA will decrease the cost to the Postal
24 Service of "wasting" of undeliverable Standard Mail. As the NSA causes improvements
25 in BAC's address quality, a greater percentage of the Standard Mail entered by BAC will

1 be deliverable as addressed, and a smaller share will require disposal by the Postal
2 Service as undeliverable. The tab titled “Standard UAA” of Appendix A shows the
3 expected savings from the reduction in the number of BAC mailpieces that would be
4 wasted over the three years of the Agreement. These results were derived as follows:

5 **1. Determination of baseline value**

6 The baseline value from which incremental improvements in UAA rates for Bank
7 of America Standard Mail are determined is a UAA rate of 6.4 percent. NSA § IV.G.2.
8 This is the system-wide average in FY 2004 for all Standard Mail of all shapes and
9 subclasses as reported in Table 2.3 of Library Reference USPS-LR-L-61. The same
10 Library Reference also reports a UAA rate of 7.8 percent for automation (as opposed to
11 presorted or ECR) Standard Mail and 7.5 percent for all subclasses of Standard Mail
12 that are Letter/Card shaped.

13 **2. Baseline costs**

14 The unit costs of disposing of UAA Standard Letter Mail are the only savings
15 from decreasing UAA rates for Standard Mail.

16 **3. Savings from improved performance**

17 Lower UAA rates will lead to lower disposal costs for Standard Mail. The
18 improvement from one year will feed into the savings in the out-years.

19 An additional value component for Standard Mail UAA is based on the revenue
20 from the ACS notices. As noted previously, BAC receives incentives for lowering UAA
21 rates for Standard Mail, however the fees for the ACS notices are always greater than
22 the rate incentives under the NSA.

1 **V. RATE DESIGN**

2 **A. Passthroughs**

3 As described above, I calculated the cost savings from improvements in mail
4 processing performance for both First-Class Mail and Standard Letter Mail, reductions
5 in returns and forwards for First-Class Letter Mail, and reductions in the wasting of UAA
6 Standard Mail. Based on these cost savings, the Bank and the Postal Service
7 negotiated rate schedules providing discounts at the various improvement levels.

8 **B. Rate Schedules**

9 The rate incentives offered by the Postal Service to BAC in this NSA are set forth
10 in Sections IV.C.1, D.1, E.1, F.1 and G.1 of the NSA (Attachment F to the Postal
11 Service's Request), and will be published in the Domestic Mail Classification Schedule
12 ("DMCS") as Rate Schedules 630A through 630E (Attachment B to the Postal Service's
13 Request).

14 **VI. FINANCIAL ANALYSIS**

15 **A. Financial Model**

16 Appendix A contains the financial model used to evaluate the benefits of the NSA
17 to the Postal Service. In previous NSAs, the value of the Agreement to the Postal
18 Service depended largely on anticipated changes in mail volume as the result of
19 negotiated financial incentives. Here, the value of the Agreement is based on
20 measured improvement in specific mail quality variables described above.³ The
21 financial benefits of the Agreement to the Postal Service are generated from four main

³ There is, of course, a volume element to the Agreement, as the total savings potential is a function of the quantity of mail that BAC sends during the life of the Agreement. The critical difference between the proposed NSA and previous NSAs, however, is that the net contribution to the Postal Service from the proposed NSA will be positive regardless of the accuracy of the volume projections.

1 components of the Agreement: readability improvement, reduced forwarding, and
 2 reduced return and disposal of undeliverable mail.

3 The actual value of the agreement can not be known with certainty until after the
 4 agreement is ended. BAC has provided estimates of the improvements in address and
 5 mail quality of its mail over the life of the agreement. See Jones Direct (BAC-T-1) at 17-
 6 18. I have evaluated these projections and find them credible. Based on the above
 7 assumptions, I estimate that the NSA will provide a positive increase in contribution to
 8 the Postal Service of \$5.5 million dollars, net of incentives, over the proposed three year
 9 life of this Agreement.

10 **B. Sensitivity Analysis**

11 As indicated above, the actual value of the NSA – or of any NSA for that matter -
 12 cannot be measured precisely until after the Agreement is complete. I have estimated
 13 that value at \$5.5 million dollars, net of incentives over the proposed three year life of
 14 this Agreement.

15 **VII. DATA COLLECTION PLAN**

16
 17 Measuring improvements against a baseline will require that the Postal Service
 18 monitor the baselines and key assumptions in estimating cost savings to ensure that the
 19 expected cost savings are realized. The Postal Service intends to monitor the following
 20 items:

- 21 1. Volume of First-Class Mail solicitations by rate category in eligible BAC permits
 22 accounts.
- 23 2. Volume of First-Class Mail customer mail by rate category in eligible BAC permit
 24 accounts.
- 25 3. Volume of Standard Mail solicitations by rate category in eligible BAC permits
 26 accounts.

- 1 4. BAC CONFIRM delivery and processing reports.
- 2 5. BAC First-Class Mail read and accept rate volume.
- 3 6. BAC Standard Mail read and accept rate volume.
- 4 7. First-Class Mail return and forwarding volume.
- 5 8. Standard Mail UAA volume.
- 6 9. Volumes of First-Class Mail bearing the ACS endorsement that are physically
7 returned to BAC.
- 8 10. Number of electronic address correction notices provided to BAC for Bank of
9 America First-Class Mail that is forwarded or returned.
- 10 11. Number of electronic address correction notices provided to BAC for Bank of
11 America Standard Mail that is UAA.
- 12 12. Calculation of forward and return rates for BAC First-Class Mail volumes.
- 13 13. Calculation of UAA rate for BAC Standard Mail volumes.
- 14 14. Monthly estimate of the amount of time spent on compliance activity and a
15 description of the activities performed.
- 16 15. As part of each data collection plan report, the Postal Service will provide an
17 evaluation of the impact of the agreement on contribution.
- 18 16. A comparison of the estimated mailer-specific costs, volumes, and revenues
19 with the actual mailer-specific costs, volumes, and revenues.
- 20 17. Reporting of FAST scores for BAC.

21 **VIII. COMPETITIVE IMPACT ANALYSIS**

22 When the Commission first announced that it would consider NSA proposals,
23 concern was expressed about the potential for NSA discounts to harm competition
24 between the mailer co-proponent of the NSA and competitors of that mailer. These
25 concerns have not been borne out by experience. The Commission has not found that
26 any of the NSAs previously submitted to it for approval would injure the competitors of

1 the co-proponent. See *Capital One NSA*, PRC MC2002-2 Op. & Rec. Decis. ¶¶ 5048,
2 7017-23; *Bank One NSA*, PRC MC2004-3 Op. & Rec. Decis. ¶¶ 6112-6116; *Discover*
3 *Financial Services NSA*, PRC MC2004-4 Op. & Rec. Decis. at 43-44. Indeed, in no
4 such case has any competitor of a co-proponent offered any claim of injury. To the
5 contrary, trade associations that include such competitors (e.g., American Bankers
6 Association, Association for Postal Commerce, Direct Marketing Association and
7 National Postal Policy Council) have been consistently supportive of the proposed
8 NSAs. See *Capital One NSA*, PRC MC2002-2 Op. & Rec. Decis. ¶ 5048; *Bank One*
9 *NSA*, PRC MC2004-3 Op. & Rec. Decis. ¶¶ 6115-6116; *Discover Financial Services*
10 *NSA*, PRC MC2004-4 Op. & Rec. Decis. at 44.

11 The same finding is warranted here. The incentives offered by the Postal
12 Service in this NSA are not intended to increase the volume of BAC's mail, and are not
13 expected to produce a measurable effect on the number or types of accounts that BAC
14 may acquire through the mail during the three year Agreement. The savings that will
15 accrue to BAC under the NSA are likely to be modest. In my analysis, I have estimated
16 savings to BAC of \$23 million. By contrast, BAC's *total* spending on postage over the
17 life of the NSA is likely to be more than \$2.3 *billion* dollars. The potential savings from
18 the NSA are also likely to constitute an even smaller share of total BAC costs and
19 revenue. As BAC witness Jones points out (BAC-T-1 at 3), BAC had total revenues of
20 \$57 billion in 2005.

21 Finally, the Postal Service recognizes an affirmative obligation to make
22 comparable terms available to companies that are deemed functionally equivalent, thus
23 obviating the possibility that any competitor of BAC need be affected by the Agreement.

1 For all of these reasons, competitors of the co-proponent are not expected to be
2 impacted by the NSA.

3 In addition, because this NSA involves letter-rated First-Class Mail and Standard
4 Mail, there should be virtually no impact on competitors of the Postal Service, which do
5 not provide these particular services.

6 **IX. THE PROPOSED PRICES ARE CONSISTENT WITH THE CRITERIA OF THE**
7 **ACT**

8 Title 39, former Section 3623, requires that the Commission evaluate proposed
9 changes in the classification schedule in accordance with the policies of the Title and
10 the following factors:

- 11 • the establishment and maintenance of a fair and equitable
12 classification system for all mail;
- 13 • the relative value to the people of the kinds of mail matter entered
14 into the postal system and the desirability and justification for
15 special classifications and services of mail;
- 16 • the importance of providing classifications with extremely high
17 degrees of reliability and speed of delivery;
- 18 • the importance of providing classifications which do not require an
19 extremely high degree of reliability and speed of delivery;
- 20 • the desirability of special classifications from the point of view of
21 both the user and of the Postal Service; and
- 22 • such other factors as the Commission may deem appropriate.
23

1 Former Section 3622(b) requires that postal rates and fees reflect the policies of
2 the Postal Reorganization Act, and accord with the following factors:

- 3 1. the establishment and maintenance of a fair and equitable schedule;
- 4 2. the value of the mail service actually provided each class or type of mail
5 service to both the sender and the recipient, including but not limited to,
6 the collection, mode of transportation, and priority of delivery;
- 7 3. the requirement that each class of mail or type of mail service bear the
8 direct and indirect postal costs attributable to that class or type plus that
9 portion of all other costs of the Postal Service reasonably assignable to
10 such class or type;
- 11 4. the effect of rate increases upon the general public, business mail
12 users, and enterprises in the private sector of the economy engaged in the
13 delivery of mail matter other than letters;
- 14 5. the available alternative means of sending and receiving letters and
15 other mail matter at reasonable costs;
- 16 6. the degree of preparation of mail for delivery into the postal system
17 performed by the mailer and its effect upon reducing costs to the Postal
18 Service;
- 19 7. simplicity of structure for the entire schedule and simple, identifiable
20 relationships between the rates or fees charged the various classes of
21 mail for postal services;
- 22 8. the educational, cultural, scientific, and informational value to the
23 recipient of mail matter; and

1 9. such other factors as the Commission deems appropriate.

2 The Postal Accountability and Enhancement Act (H.R. 6407, Pub. L. 109-435)
3 gives continued effect to these provisions until the Commission adopts rules
4 implementing the legislation. I believe the conclusions presented in the Capital One
5 NSA Docket are also applicable to the BAC NSA:

6 ...the Postal Service believes that by negotiating directly with
7 individual customers, it may be possible, through negotiated service
8 agreements such as the one submitted here, to more accurately present
9 prices that represent the value that the user places on the service being
10 provided (pricing criterion 2) for mail classifications that are desirable to
11 the mailer and the Postal Service (classification criterion 5). In this case,
12 the Postal Service has directly negotiated with the sender of the mail to
13 arrive at classifications and prices that the Postal Service considers to be
14 fair and equitable (classification criterion 1 and pricing criterion 1). As
15 indicated in the testimony of witness Crum, there can be no doubt that the
16 prices presented in this case will cover the costs of providing the service
17 (price criterion 3). In fact, the address improvement steps that Capital
18 One has agreed to will serve to lower the costs currently borne by other
19 customers (pricing criterion 6). For this reason, the classifications and
20 prices presented in this agreement confer beneficial effects on the general
21 public and other ratepayers (classification criterion 1 and pricing criterion
22 1). The proposed rates do not have an adverse impact on the rates paid
23 by the general public, or other business mail users (pricing criterion 4).
24 The proposed declining block rate structure is relatively simple and
25 maintains a transparent, identifiable relationship between volume levels
26 and applicable rates and fees (pricing criterion 7).

27 Docket No. MC2002-2, USPS-T-2, page 9, line 36, to page 10, line 15.

28 The per-unit incentives offered to BAC under this Agreement are small, such that
29 there is no reason to believe that the customer-specific rates offered to BAC will fail to
30 cover the costs associated with BAC's mail, thus meeting pricing criterion 1, which
31 concerns fairness and equity, as well as pricing criterion 3, which addresses the
32 requirement to cover all costs.

1 Criterion 6 is the central basis for this NSA. Under the terms of the Agreement,
2 BAC is agreeing to engage in a degree of preparation that far exceeds existing or
3 planned requirements, and through negotiation we have arrived at incentives that I
4 believe fairly reimburse BAC for its efforts only to the extent it is successful in reducing
5 costs to the Postal Service. The other criteria of former Section 3622(b) are satisfied as
6 well. In particular, the per-unit incentives offered to BAC under this Agreement are
7 small, so there is no reason to believe that the customer-specific rates offered to BAC
8 will fail to cover the costs associated with BAC's mail.

9 Finally, although I understand that the new ratemaking provisions of the Postal
10 Accountability and Enhancement Act will not take effect over former Sections 3622 and
11 3623 until the Commission establishes standards and procedures to implement the new
12 legislation, it is certainly worth noting that 39 U.S.C. § 3622(b)(13), as amended, will
13 require that rates reflect consideration of "the value to the Postal Service and postal
14 users of promoting intelligent mail and of secure, sender-identified mail."

15 **X. SUMMARY AND CONCLUSIONS**

16 As the Postal Service continues to conduct NSA discussions with customers, it
17 expects to find more and more instances where contractual agreements offer some
18 inherent advantages. In the instant case, the ability to negotiate directly with one of its
19 largest customers has led to a mutually beneficial model that I believe will allow the
20 Postal Service to:

- 21 • Achieve cost savings from mailer efforts at the lowest possible
22 combined cost to the mailer and the Postal Service.
- 23 • Test price incentives for mail quality that could be applied more
24 generally.

- 1 • Acquire voluminous operations, volume, service, and customer
2 information that may help improve USPS operations and service.
- 3 • Learn about the capabilities and enhancements of IMAQ and seamless
4 acceptance in a controlled setting with important contractual
5 protections.

6 The Postal Regulatory Commission should recommend the proposed NSA as it
7 has been proposed. It will reduce the Postal Service's costs and because no incentives
8 are paid to BAC unless it attains the agreed upon improvements, the financial risk to the
9 Postal Service and to rate payers is minimal.

Bank of America NSA Filing Model

Appendix A: USPS Value

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	Year 1	Year 2	Year 3	Total
First-Class Mail Letters				
[1] Operational Return Savings	\$112,650	\$254,777	\$402,023	\$769,450
[2] Marketing Return Savings	\$441,168	\$496,430	\$549,959	\$1,487,557
[3] Forwarding	-\$87,147	\$240,693	\$584,661	\$738,207
Standard Mail Letters				
[4] Undeliverable-As-Addressed	\$1,615,637	\$1,776,026	\$1,953,114	\$5,344,777
Mail Processing Improvements				
[5] First-Class Mail letters	\$383,011	\$2,695,736	\$5,033,768	\$8,112,516
[6] Standard Mail letters	\$382,748	\$2,693,367	\$5,995,993	\$9,072,108
Delivery				
[7] First-Class Mail letters	\$70,780	\$511,471	\$972,006	\$1,554,257
[8] Standard Mail letters	\$62,907	\$454,580	\$1,063,249	\$1,580,737
[9] Total Cost Savings	\$2,981,755	\$9,123,080	\$16,554,774	\$28,659,609
Additional Revenue				
Confirm Subscriptions	\$197,780	\$197,780	\$197,780	\$593,340
[10] Total New Revenue	\$197,780	\$197,780	\$197,780	\$593,340
Incentives				
[11] First-Class Mail Operational Returns	\$0	\$286,000	\$286,000	\$572,000
[12] First-Class Mail Marketing Returns	\$0	\$360,000	\$390,000	\$750,000
[13] First-Class Mail Forwarding Returns	\$0	\$182,000	\$420,000	\$602,000
[14] Standard Mail UAA Returns	\$0	\$760,000	\$760,000	\$1,520,000
[15] First-Class Mail Mail Processing Improvement	\$448,000	\$3,178,000	\$5,936,000	\$9,562,000
[16] Standard Mail Mail Processing Improvement	\$456,000	\$3,249,000	\$6,897,000	\$10,602,000
[17] Total Incentives	\$904,000	\$8,015,000	\$14,689,000	\$23,608,000
[18] USPS Value	\$2,275,535	\$1,305,860	\$2,063,554	\$5,644,949

Sources:

[1] Total Savings [FCM Ops Return Savings]	[10] Total Fees [Confirm]
[2] Total Savings [FCM Mkt Return Savings]	[11] Incentive Earned on Operations Volume x FCM Ops Letters
[3] Total Savings [FCM Forwards]	[12] Incentive Earned on Marketing Volume x FCM Mkt Letters
[4] Total Savings [SM UAA]	[13] Incentive Earned on Marketing Volume x (FCM Ops Letters + FCM Mkt Letters)
[5] Total Savings [FCM MP]	[14] Incentive Earned on Standard Mail Volume x SM Mkt Letters
[6] Total Savings [SM MP]	[15] Incentive Earned on FCM Volume x (FCM Ops Letters + FCM Mkt Letters)
[7] Total Savings [Delivery Adj]	[16] Incentive Earned on Standard Mail Volume x SM Mkt Letters
[8] Total Savings [Delivery Adj]	[17] [11] + [12] + [13] + [14] + [15] + [16]
[9] [1] + [2] + [3] + [4] + [5] + [6] + [7] + [8]	[18] [9] + [10] - [18]

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Appendix A: Assumptions [REVISED— June 6, 2007]

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[1] Inflation	FY 2007 3.1%	FY 2008 2.4%	FY 2009 2.3%
	First-Class Mail		Standard Mail
[2] Before-Rates Return Rate	Operational 0.7%	Marketing 2.7%	Marketing 6.4%
[3] Before-Rates Total First-Class Mail Forwarding Rate	1.7%		
	FY 2007	FY 2008	FY 2009
[4] Reduction in Operations Return Rate Due to NSA	0.0%	5.0%	10.0%
[5] Reduction in Standard UAA Rate Due to NSA	0.0%	5.0%	10.0%
[6] Reduction in Marketing Return Rate Due to NSA	0.0%	10.0%	20.0%
[7] Reduction in Forwarding Rate Due to NSA	0.0%	10.0%	20.0%
[8] Increase in USPS First-Class Mail Read/Accept Rates	0.1%	0.7%	1.3%
[9] Increase in USPS Standard Mail Read/Accept Rates	0.1%	0.7%	1.6%

Sources:

- [1] Docket No. R2006-1 Rollforward and Volume forecast
- [2] BAC-T-1 page 17
- [3] Docket No. R2006-1 USPS LR-L-61, Table 2.3 (FCM Automation Average)

Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on

- [4] June 6, 2007.

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- [5] Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on June 6, 2007.
- [6] Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on June 6, 2007.
- [7] Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on June 6, 2007.
- [8] Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on June 6, 2007.

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Percentages are consistent with a range of estimates discussed during the negotiations between the Postal Service and BAC. See Response of United States Postal Service Witness Ayub to Interrogatory of the Office of Consumer Advocate (OCA/USPS-T1-31), filed on April 4, 2007, and United States Postal Service Notice of Correction to Response of Witness Ayub to Interrogatories of the Office of Consumer Advocate (OCA/USPS-T1-1-4) [Errata], filed on June 6, 2007.

[9]

Bank of America NSA Filing Model

Appendix A: Input Data

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Before-Rates Volume		FY 2007	FY 2008	FY 2009	2006 Billing Determinants	First-Class Mail	Standard Mail
First-Class Mail					Automation Letters		
[1]	Operational Letters	1,300,000,000	1,300,000,000	1,300,000,000	[4] Mixed AADC	73,024,125	38,289,718
	Return-Waived (%)	10%	10%	10%	[5] AADC	40,282,036	78,650,684
	Physical Return Rights (%)	90%	90%	90%	[6] 3-Digit	856,503,717	929,951,679
[2]	Marketing Letters	100,000,000	100,000,000	100,000,000	[7] 5-Digit	424,653,328	814,263,700
	Standard Mail				Carrier Route	15,747,882	
[3]	Marketing Letters	1,900,000,000	1,900,000,000	1,900,000,000			

Unit Cost Data

	First-Class Mail	Standard Mail	Letters
[8] Manual Letter Returns	\$ 0.3242		
[9] Electronic Letter Returns	\$ 0.1235		
[10] OneCode Electronic Notice	\$ 0.0044	\$ 0.0045	
[11] USPS Forwarding, Letters	\$ 0.1352		
[12] USPS UAA Mail Treated as Waste			\$ 0.0419
[13] ACS Success Rate	85.0%	85.0%	85.0%
[14] Price of each Standard Mail OneCode ACS Notice		\$0.020	

Sources:

- [1] - [3] BAC-T-1 Table 2 page 8
- [4] - [7] BAC FY 2006 Billing Determinants
- [8] - [13] Docket No. R2006-1 USPS LR-L-62
- [14] Docket No. R2006-1 USPS-T-40

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Bank of America NSA Filing Model
Appendix A: Incentives
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First-Class Mail UAA Incentives			
Improvement	Ops	Mkt	Forwarding
0.00	\$0.000000	\$0.00000	\$0.00000
0.10	\$0.000220	\$0.00360	\$0.00013
0.20	\$0.000370	\$0.00390	\$0.00030
0.30	\$0.000530	\$0.00420	\$0.00047
0.40	\$0.000680	\$0.00450	\$0.00064
0.50	\$0.000830	\$0.00480	\$0.00081
0.60	\$0.000990	\$0.00510	\$0.00098
0.70	\$0.001140	\$0.00540	\$0.00116
0.80	\$0.001300	\$0.00570	\$0.00133
0.90	\$0.001450	\$0.00600	\$0.00150

Standard Mail UAA Incentives	
0.00	\$0.0000
0.10	\$0.0004
0.20	\$0.0006
0.30	\$0.0010
0.40	\$0.0011
0.50	\$0.0013
0.60	\$0.0015
0.70	\$0.0017
0.80	\$0.0019
0.90	\$0.0021

Mail Processing Improvements		
Improvement	FCM	Standard
0.00	\$0.00000	\$0.00000
0.001	\$0.00032	\$0.00024
0.002	\$0.00065	\$0.00049
0.003	\$0.00097	\$0.00073
0.004	\$0.00129	\$0.00097
0.005	\$0.00162	\$0.00122
0.006	\$0.00194	\$0.00146
0.007	\$0.00227	\$0.00171
0.008	\$0.00260	\$0.00195
0.009	\$0.00292	\$0.00220
0.010	\$0.00325	\$0.00244
0.011	\$0.00358	\$0.00269
0.012	\$0.00391	\$0.00294
0.013	\$0.00424	\$0.00319
0.014	\$0.00457	\$0.00343
0.015	\$0.00483	\$0.00363
0.016	\$0.00506	\$0.00379
0.017	\$0.00529	\$0.00396
0.018	\$0.00552	\$0.00419
0.019	\$0.00575	\$0.00466

Incentive Calculation	Year 1	Year 2	Year 3
First-Class Mail UAA Discounts			
Actual Operations Rate Improvement	0.00	0.05	0.10
Rounded Improvement	0.00	0.10	0.10
Incentive Earned on Operations Volume	0	0.00022	0.00022
Actual Marketing Rate Improvement	0.00	0.10	0.20
Rounded Improvement	0.00	0.10	0.20
Incentive Earned on Marketing Volume	0	0.0036	0.0039
Actual Marketing Forwarding Rate Improvement	0.00	0.10	0.20
Rounded Improvement	0.00	0.10	0.20
Incentive Earned on Forwarded Volume	0	0.00013	0.0003
Standard Mail UAA Discounts			
Actual Standard Mail Rate Improvement	0.00	0.05	0.10
Rounded Improvement	0.00	0.10	0.10
Incentive Earned on Standard Mail Volume	0	0.0004	0.0004
Accept Rate Discounts			
Actual FCM Accept Rate Improvement	0.001	0.007	0.013
Rounded Improvement	0.0010	0.0070	0.0130
Incentive Earned on FCM Volume	0.00032	0.00227	0.00424
Actual Standard Mail Accept Rate Improvement	0.001	0.007	0.016
Rounded Improvement	0.0010	0.0070	0.0160
Incentive Earned on Standard Mail Volume	0.00024	0.00171	0.00363

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Appendix A: Delivery Savings Input

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USPS-LR-L-101 - Revised 3/15/06

TEST YEAR PIGGYBACK FACTORS

SOURCE: USPS-LR-L-52, TYPBack.USPS.xls, 2/22/06

Line No.	Class, Subclass, or Special Service Cost Segment	City Delivery 6 & 7	Rural Delivery 10
	Column Number Units Column Source/Notes	(1)	(2)
1	FIRST-CLASS MAIL		
2	SINGLE PIECE LETTERS	1.273	1.196
3	PRESORT LETTERS	1.272	1.196
4	SINGLE PIECE CARDS	1.271	1.196
5	PRESORT CARDS	1.274	1.196
6	PERIODICALS	1.261	1.195
7	STANDARD MAIL:		
8	ENHANCED CARR RTE	1.269	1.195
9	REGULAR	1.269	1.195
10	PACKAGE SERVICES:		
11	BOUND PRINTED MATTER	1.314	1.195
12	MEDIA MAIL	1.302	1.195

USPS-LR-L-101 - Revised 3/15/06

FIRST-CLASS AND STANDARD REGULAR LETTERS DPS PERCENTAGES

SOURCE: City05.xls, CS10.xls, MailChar05 - Final.xls

Line No.	Rate Category	CCS LETTERS	RCS LETTERS	CCS DPS LETTERS	RCS DPS LETTERS	CCS & RCS LETTERS	CCS & RCS DPS LETTERS	DPS%	REVISED DPS %	PERMIT VOLUME
	Column No. Units Source	(1) (000) city05.xls, 1C Presort Data for Kelley.xls	(2) CS10.xls, Rural 1C Presort for Kelley.xls	(3) (000) city05.xls, 1C Presort Data for Kelley.xls	(4) CS10.xls, Rural 1C Presort for Kelley.xls	(5) C1 + C2	(6) C3 + C4	(7) % C6 / C5	(8) % C3 / ((1 - (C9 Nonmachinab le/ Machinable)) * C1)	(9) (000) Nonmachinab le from MailChar05 - Final.xls; Total from ShapeGFY20 05rV.xls
1	First-Class Single-Piece Letters									39,317,031
2	First-Class Presort Letters	29,964,684	13,169,657	25,720,327	10,358,772	43,134,341	36,079,099			
3	Non-Auto	5,903,107	2,671,800	4,666,336	1,955,295	8,574,907	6,621,631	77.22%	77.22%	1,739,317
4	Auto	24,061,577	10,497,857	21,053,991	8,403,477	34,559,434	29,457,468	85.24%	85.24%	46,408,216
5	TOTAL									48,147,533
6	First-Class Cards	1,758,482	744,750	1,360,873	530,923	2,503,232	1,891,796			
7	Non-Auto	436,350	206,132	278,585	121,193	642,482	399,778	63.84%	63.84%	363,570
8	Auto	1,322,132	538,618	1,082,288	409,730	1,860,750	1,492,018	81.86%	81.86%	2,744,131
9	TOTAL									3,107,701
10	Standard Regular	31,365,612	13,477,338	25,580,093	10,216,234	44,842,950	35,796,327	81.55%		
11	Nonmachinable								0.00%	190,428
12	Machinable								81.86%	51,099,081
13	TOTAL									51,289,509

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Appendix A: FCM Returns

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Before-Rates FCM Operational Letters

[1]	Volume	1,300,000,000	1,300,000,000	1,300,000,000
[2]	Original Return Rate	0.7%	0.7%	0.7%
[3]	Manual Letter Returns Unit Cost	\$ 0.314	\$ 0.324	\$ 0.332
[4]	Before-Rates Return Volume	8,840,000	8,840,000	8,840,000
[5]	Before-Rates Return Cost	\$ 2,775,831	\$ 2,865,521	\$ 2,932,288

After-Rates FCM Operational Letters

Inputs

[6]	Address Change Service ("ACS") Electronic Letter Returns Unit Cost	\$ 0.120	\$ 0.123	\$ 0.126
[7]	ACS Success Rate	85%	85%	85%
	Percent Return-Waived Mail Pieces	10%	10%	10%
[8]	Reduction in Operations Return Rate Due to NSA	0.0%	5.0%	10.0%

Model Results

	Return-Waived Volume	884,000	839,800	795,600
	Physical Return Rights Volume	7,956,000	7,558,200	7,160,400
[9]	Manual Letter Returns Volume w/ OneCode Notice	7,514,000	7,138,300	6,762,600
	Manual Letter Returns Cost			
	Return-Waived Volume	\$ 41,637	\$ 40,834	\$ 39,586
[10]	Physical Return Rights Volume	\$ 2,498,247	\$ 2,450,021	\$ 2,375,153
[11]	Electronic Letter Returns Volume	751,400	713,830	676,260
	Electronic Letter Returns Cost	\$ 89,881	\$ 88,146	\$ 85,452
[12]	OneCode Electronic Notice Total Cost	\$ 33,415	\$ 31,744	\$ 30,073

Net Savings (Cost)-FCM Operational Letters

[13]	Total Savings	\$112,650	\$254,777	\$402,023
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Sources:

[1]	First-Class Mail Marketing Letters [Input Data]	[8]	Reduction in Operations Return Rate [Model Assumptions]
[2]	Before Rates Return Rate [Model Assumptions]	[9]	[1] x [2] x [7] x (1 - [8])
[3]	Manual Letter Returns [Input Data]	[10]	[1] x [2] x [3] x (1 - [8])
[4]	[1] x [2]	[11]	Reduction in Ops letters due to electronic return
[5]	[3] x [4]	[12]	[9] x OneCode Electronic Notice [Input Data]
[6]	Electronic Letter Returns [Input Data]	[13]	[5] - [10] - [12]
[7]	ACS Success Rate [Input Data]		

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Appendix A: FCM Returns

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Before-Rates FCM Marketing Letters

[1]	Volume	100,000,000	100,000,000	100,000,000
[2]	Original Return Rate	2.7%	2.7%	2.7%
[3]	Manual Letter Returns Unit Cost	\$ 0.314	\$ 0.324	\$ 0.332
[4]	Before-Rates Return Volume	2,670,000	2,670,000	2,670,000
[5]	Before-Rates Return Cost	\$ 838,401	\$ 865,491	\$ 885,657

After-Rates FCM Marketing Letters

Inputs

[6]	Address Change Service ("ACS") Electronic Letter Returns Unit Cost	\$ 0.120	\$ 0.123	\$ 0.126
[7]	ACS Success Rate	85%	85%	85%
[8]	Reduction in Marketing Return Rate Due to NSA	0.0%	10.0%	20.0%

Model Results

[9]	Manual Letter Returns Volume	400,500	360,450	320,400
[10]	Manual Letter Returns Cost	\$ 125,760	\$ 116,841	\$ 106,279
[11]	Electronic Letter Returns Volume	2,269,500	2,042,550	1,815,600
[12]	Electronic Letter Returns Cost	\$ 271,473	\$ 252,220	\$ 229,419

Net Savings (Cost)-FCM Marketing Return Letters

[13]	Total Savings	\$441,168	\$496,430	\$549,959
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Sources:

[1]	First-Class Mail Marketing Letters [Input Data]	[8]	Reduction in Marketing Return Rate [Model Assumptions]
[2]	Before Rates Return Rate [Model Assumptions]	[9]	[1] x [2] x [7] x (1 - [8])
[3]	Manual Letter Returns [Input Data]	[10]	[3] x [9]
[4]	[1] x [2]	[11]	[1] x [2] x [3] x [8]
[5]	[3] x [4]	[12]	[6] x [11]
[6]	Electronic Letter Returns [Input Data]	[13]	[5] - [10] - [12]
[7]	ACS Success Rate [Input Data]		

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Appendix A: FCM Forwards

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Before-Rates FCM Forwards

[1]	Total First-Class Mail Letter Volume	1,400,000,000	1,400,000,000	1,400,000,000
[2]	Original Forwarding Rate - Total FCM Letter Volume	1.7%	1.7%	1.7%
[3]	USPS Forwarding Unit Cost	\$0.131	\$ 0.135	\$0.138
[4]	Before-Rates Forwarding Volume	23,800,000	23,800,000	23,800,000
[5]	Before-Rates Forwarding Cost	\$ 3,115,914	\$ 3,216,594	\$ 3,291,540

After-Rates FCM Forwards

Inputs

[6]	Address Change Service ("ACS") OneCode ACS Forwarding Notice Unit Cost	\$ 0.004	\$ 0.004	\$ 0.005
[7]	ACS Success Rate	85%	85%	85%
[8]	Reduction in Forwarding Rate Due to NSA	0.0%	10.0%	20.0%

Model Results

[9]	Letter Forwarding Volume	23,800,000	21,420,000	19,040,000
[10]	Letter Forwarding Cost	\$ 3,115,914	\$ 2,894,934	\$ 2,633,232
[11]	OneCode ACS Notices Volume	20,230,000	18,207,000	16,184,000
[12]	OneCode ACS Notices Cost	\$ 87,147	\$ 80,967	\$ 73,647

Net Savings (Cost) - FCM Forwards

[13]	Total Savings	(\$87,147)	\$ 240,693	\$ 584,661
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Sources:

[1]	FCM Operational + FCM Marketing Letters [Input Data]	[8]	Reduction in Forwarding Rate [Model Assumptions]
[2]	Total First-Class Mail Forwarding Rate [Input Data]	[9]	[1] x [2] x (1 - [8])
[3]	USPS Forwarding, Letters [Input Data]	[10]	[3] x [9]
[4]	[1] x [2]	[11]	[7] x [9]
[5]	[3] x [4]	[12]	[6] x [11]
[6]	OneCode Electronic Notice [Input Data]	[13]	[5] - [10] - [12]
[7]	ACS Success Rate [Input Data]		

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Appendix A: Standard Mail UAA

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Before-Rates Standard Mail UAA

[1]	Volume	1,900,000,000	1,900,000,000	1,900,000,000
[2]	Undeliverable-As-Addressed ("UAA") Rate	6.4%	6.4%	6.4%
[3]	USPS UAA Mail Treated as Waste Unit Cost	\$0.041	\$ 0.042	\$0.043
[4]	Before Rates UAA Volume	121,600,000	121,600,000	121,600,000
[5]	Before Rates UAA Cost	\$4,940,984	\$5,100,634	\$5,219,478

After-Rates Standard Mail UAA

Inputs

[6]	USPS OneCode ACS Cost	\$ 0.004	\$ 0.005	\$ 0.005
[7]	ACS Success Rate	85%	85%	85%
[8]	Unit Price of Standard Mail OneCode ACS Notice	\$ 0.020	\$ 0.020	\$ 0.020
[9]	Reduction in Standard UAA Rate Due to NSA	0.0%	5.0%	10.0%

Model Results

[10]	UAA Volume	121,600,000	115,520,000	109,440,000
[11]	UAA Cost	\$4,940,984	\$4,845,602	\$4,697,531
[12]	OneCode ACS Volume	103,360,000	98,192,000	93,024,000
[13]	OneCode ACS Cost	\$ 451,563	\$ 442,846	\$ 429,313
[14]	OneCode ACS Revenue	\$2,067,200	\$1,963,840	\$1,860,480

Net Savings (Cost) - Standard Mail UAA

[15]	Total Savings	\$ 1,615,637	\$ 1,776,026	\$ 1,953,114
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Sources:

[1]	Standard Mail Marketing Letters [Input Data]	[9]	Reduction in Standard UAA Rate [Model Assumptions]
[2]	Before-Rates Return Rate [Model Assumptions]	[10]	[4] x [9]
[3]	USPS UAA Mail Treated as Waste [Input Data]	[11]	[3] x [10]
[6]	[1] x [2]	[12]	[7] x [10]
[5]	[3] x [4]	[13]	[6] x [12]
[6]	OneCode Electronic Notice [Input Data]	[14]	[8] x [12]
[7]	ACS Success Rate [Input Data]	[15]	[5] - [11] - [13] + [14]
[8]	Price of each Standard Mail OneCode ACS Notice [Input Data]		

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Appendix A: First-Class Mail Processing Improvements
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RATE CATEGORY	R 2006 TOTAL MAIL PROCESSING UNIT COST (CENTS)	[2] BAC First-Class Mail Accept Rate Improvements																		
		0.10%	0.20%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%
[1] COST PER PIECE PER RATE CATEGORY																				
Automation MAADC Presort Letters	7.159	7.107	7.055	7.002	6.950	6.897	6.844	6.792	6.739	6.686	6.632	6.579	6.526	6.472	6.419	6.370	6.324	6.278	6.232	6.186
Automation AADC Presort Letters	5.842	5.808	5.774	5.740	5.706	5.672	5.638	5.603	5.569	5.535	5.500	5.466	5.431	5.396	5.362	5.332	5.305	5.278	5.252	5.225
Automation 3-Digit Presort Letters	5.383	5.353	5.322	5.292	5.261	5.231	5.200	5.169	5.139	5.108	5.077	5.046	5.015	4.984	4.953	4.927	4.904	4.881	4.858	4.835
Automation 5-Digit Presort Letters	3.886	3.869	3.853	3.837	3.820	3.804	3.787	3.771	3.755	3.738	3.722	3.705	3.688	3.672	3.655	3.644	3.636	3.627	3.619	3.611
Automation Carrier Route Presort Letters	2.886	2.874	2.861	2.849	2.836	2.823	2.811	2.798	2.785	2.773	2.760	2.747	2.734	2.721	2.708	2.701	2.697	2.693	2.689	2.685
[3] SAVINGS PER PIECE PER RATE CATEGORY																				
Automation MAADC Presort Letters	0.00052	0.00104	0.00157	0.00209	0.00262	0.00314	0.00367	0.00420	0.00473	0.00526	0.00580	0.00633	0.00687	0.00740	0.00789	0.00835	0.00881	0.00927	0.00973	0.01019
Automation AADC Presort Letters	0.00034	0.00068	0.00102	0.00136	0.00170	0.00204	0.00238	0.00273	0.00307	0.00342	0.00376	0.00411	0.00445	0.00480	0.00510	0.00536	0.00563	0.00590	0.00617	0.00644
Automation 3-Digit Presort Letters	0.00030	0.00061	0.00091	0.00122	0.00152	0.00183	0.00214	0.00245	0.00275	0.00306	0.00337	0.00368	0.00399	0.00430	0.00456	0.00479	0.00502	0.00525	0.00548	0.00571
Automation 5-Digit Presort Letters	0.00016	0.00033	0.00049	0.00065	0.00082	0.00098	0.00115	0.00131	0.00148	0.00164	0.00181	0.00197	0.00214	0.00230	0.00242	0.00250	0.00258	0.00267	0.00275	0.00283
Automation Carrier Route Presort Letters	0.00013	0.00025	0.00038	0.00050	0.00063	0.00076	0.00088	0.00101	0.00114	0.00127	0.00139	0.00152	0.00165	0.00178	0.00185	0.00189	0.00193	0.00197	0.00202	0.00207
[4] SAVINGS PER RATE CATEGORY																				
Automation MAADC Presort Letters	73,024,125	\$38,042	\$76,172	\$114,389	\$152,695	\$191,089	\$229,572	\$268,143	\$306,803	\$345,552	\$384,391	\$423,320	\$462,338	\$501,446	\$540,644	\$579,932	\$619,410	\$659,078	\$698,936	\$738,984
Automation AADC Presort Letters	40,282,036	\$13,636	\$27,296	\$40,985	\$54,702	\$68,445	\$82,216	\$96,015	\$109,840	\$123,694	\$137,575	\$151,483	\$165,420	\$179,384	\$193,375	\$207,391	\$221,432	\$235,500	\$249,595	\$263,718
Automation 3-Digit Presort Letters	856,503,717	\$260,116	\$520,707	\$781,776	\$1,043,322	\$1,305,347	\$1,567,852	\$1,830,836	\$2,094,301	\$2,358,249	\$2,622,678	\$2,887,591	\$3,152,989	\$3,418,871	\$3,685,239	\$3,952,091	\$4,218,428	\$4,484,245	\$4,750,542	\$5,017,319
Automation 5-Digit Presort Letters	424,653,328	\$69,244	\$138,589	\$208,034	\$277,581	\$347,229	\$416,978	\$486,828	\$556,780	\$626,833	\$696,988	\$767,244	\$837,603	\$908,063	\$978,625	\$1,049,291	\$1,120,061	\$1,190,936	\$1,261,917	\$1,333,004
Automation Carrier Route Presort Letters	15,747,882	\$1,975	\$5,938	\$9,918	\$13,915	\$17,928	\$21,958	\$25,994	\$30,036	\$34,084	\$38,138	\$42,198	\$46,264	\$50,336	\$54,414	\$58,497	\$62,585	\$66,678	\$70,776	\$74,879
[5] Totals	1,410,211,088	\$383,011	\$766,719	\$1,151,123	\$1,536,226	\$1,922,028	\$2,308,531	\$2,695,736	\$3,083,644	\$3,472,256	\$3,861,573	\$4,251,597	\$4,642,328	\$5,033,768	\$5,425,918	\$5,819,891	\$6,214,787	\$6,610,604	\$7,007,342	\$7,405,001
		Estimated Savings	Year 1	Year 2	Year 3															
[6]		Actual Improvement	0.10%	0.70%	1.30%															
[7]		Total Savings	\$383,011	\$2,695,736	\$5,033,768															

- Sources:**
[1] Docket No. R2006-1 USPS-LR-L-110
[2] BAC First-Class Mail Accept Rate Improvements
[3] [1] - [2]
[4] Mail Processing Improvements - FCM [Incentives]
[5] Sum of Savings Per Rate Category
[6] Increase in USPS First-Class Mail Read/Accept Rates [Model Assumptions]
[7] Total Savings for each Actual Improvement

[1] RATE CATEGORY	TOTAL MAIL PROCESSING UNIT COST (CENTS)	[2] BAC Standard Mail Accept Rate Improvements																		
		0.10%	0.20%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%
Automation MAADC Presort Letters	6.083	6.040	5.997	5.954	5.910	5.867	5.823	5.779	5.735	5.691	5.647	5.603	5.559	5.514	5.470	5.430	5.392	5.353	5.315	5.277
Automation AADC Presort Letters	4.987	4.959	4.931	4.902	4.874	4.846	4.818	4.789	4.761	4.732	4.704	4.675	4.646	4.618	4.589	4.564	4.542	4.520	4.498	4.475
Automation 3-Digit Presort Letters	4.605	4.580	4.555	4.529	4.504	4.479	4.453	4.428	4.402	4.377	4.351	4.325	4.300	4.274	4.248	4.227	4.208	4.189	4.170	4.150
Automation 5-Digit Presort Letters	3.355	3.342	3.328	3.315	3.301	3.288	3.274	3.260	3.247	3.233	3.219	3.206	3.192	3.178	3.164	3.155	3.148	3.141	3.134	3.127
[3] SAVINGS PER PIECE PER RATE CATEGORY		BAC Standard Mail Accept Rate Improvements																		
Automation MAADC Presort Letters		0.00043	0.00086	0.00130	0.00173	0.00217	0.00261	0.00304	0.00348	0.00392	0.00436	0.00480	0.00525	0.00569	0.00614	0.00654	0.00692	0.00730	0.00768	0.00807
Automation AADC Presort Letters		0.00028	0.00056	0.00084	0.00113	0.00141	0.00169	0.00198	0.00226	0.00254	0.00283	0.00312	0.00340	0.00369	0.00398	0.00422	0.00445	0.00467	0.00489	0.00511
Automation 3-Digit Presort Letters		0.00025	0.00050	0.00076	0.00101	0.00126	0.00152	0.00177	0.00203	0.00228	0.00254	0.00279	0.00305	0.00331	0.00357	0.00378	0.00397	0.00416	0.00435	0.00455
Automation 5-Digit Presort Letters		0.00014	0.00027	0.00041	0.00054	0.00068	0.00081	0.00095	0.00109	0.00122	0.00136	0.00150	0.00164	0.00177	0.00191	0.00200	0.00207	0.00214	0.00221	0.00228
[5] SAVINGS PER RATE CATEGORY		BAC Standard Mail Accept Rate Improvements																		
Automation MAADC Presort Letters	38,289,718	\$16,530	\$33,099	\$49,705	\$66,350	\$83,034	\$99,756	\$116,516	\$133,315	\$150,153	\$167,030	\$183,945	\$200,900	\$217,894	\$234,927	\$250,369	\$264,950	\$279,554	\$294,190	\$308,828
Automation AADC Presort Letters	78,650,684	\$22,064	\$44,127	\$66,323	\$88,519	\$110,760	\$133,044	\$155,373	\$177,746	\$200,164	\$222,627	\$245,134	\$267,686	\$290,283	\$312,925	\$332,206	\$349,859	\$367,128	\$384,617	\$402,123
Automation 3-Digit Presort Letters	929,951,679	\$234,083	\$468,594	\$703,534	\$938,905	\$1,174,707	\$1,410,940	\$1,647,605	\$1,884,703	\$2,122,235	\$2,360,202	\$2,598,603	\$2,837,440	\$3,076,714	\$3,316,426	\$3,515,879	\$3,693,420	\$3,871,102	\$4,048,926	\$4,226,891
Automation 5-Digit Presort Letters	814,263,700	\$110,072	\$220,304	\$330,696	\$441,249	\$551,963	\$662,838	\$773,873	\$885,070	\$996,429	\$1,107,949	\$1,219,630	\$1,331,474	\$1,443,479	\$1,555,647	\$1,631,653	\$1,687,964	\$1,744,288	\$1,800,622	\$1,856,969
Total	1,861,155,781	\$382,748	\$766,168	\$1,150,259	\$1,535,024	\$1,920,463	\$2,306,577	\$2,693,367	\$3,080,835	\$3,468,961	\$3,857,807	\$4,247,313	\$4,637,501	\$5,028,371	\$5,419,925	\$5,730,107	\$5,995,993	\$6,262,072	\$6,528,344	\$6,794,811
		Year 1	Year 2	Year 3																
[6] Actual Improvement		0.10%	0.70%	1.60%																
[7] Total Savings		\$382,748	\$2,693,367	\$5,995,993																

Sources:
[1] Docket No. R2006-1 USPS-LR-L-110
[2] BAC Standard Mail Accept Rate Improvements
[3] [1] - [2]
[4] Mail Processing Improvements - SM [Incentives]
[5] Sum of Savings Per Rate Category
[6] Increase in USPS Standard Mail Read/Accept Rates [Model Assumptions]
[7] Total Savings for each Actual Improvement

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Appendix A: City Delivery Unit Costs

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USPS-LR-L-67 - Revised 3/15/06

IN-OFFICE DIRECT UNIT COST

TY 2008

**Changes from USPS -LR-L-67 are highlighted in yellow

Line No.	Col. No. Units Source/Calculations	(1) Total In-Office Direct Labor Casing Plus Non-Casing Cost , All Route Groups	(2) Casing Portion Of In-Office Direct Labor, All Route Groups	(3) Casing Portion Of In-Office Direct Labor, Letter Routes Only	(4) Other Portion Of In-Office Direct Labor	(5) Assumed % DPS Mail Cased	(6) CCS Volume	(7) % DPS	(8) % Cased	(9) % Non-Cased	(10) In-Office Direct Labor Casing Cost Per CCS Piece - Cased Pieces	(11) In-Office Direct Labor Plus Non-Casing Cost Per CCS Piece - Cased Pieces	(12) In-Office Direct Labor Non-Casing Cost Per CCS Piece - Applied to All Pieces
		C2 + C4	2.SummaryTY C3	C2 x 17.In-OfficeDetail (C3 / C2)	2.SummaryTY C4		17.In-OfficeDetail C6 x 2.SummaryTY C10 / 11.SummaryB Y C11	C13 L7, L11, L15	(1 - C7) + (C7 x C5)	C7 x (1 - C5)	C2 / (C8 x C6)	C2 / (C8 x C6) + C12	C4 / C6
1	FC Presort - Letter-Shape Pieces Only	375,738	325,873	302,918	66,499	10.0%	29,551,026	84.95%	23.55%	76.45%	0.0444	0.0491	0.0023
2	FC Presort - Cards	26,689	21,715	21,246	4,974	10.0%	1,737,096	79.75%	28.22%	71.78%	0.0443	0.0472	0.0029
3	Standard Regular - Letters	305,344	252,121	247,032	53,223	10.0%	35,665,325	81.56%	26.60%	73.40%	0.0266	0.0281	0.0015

Sources:

(2) Casing portion of costs were adjusted to include only the pure casing costs from LR-67 in R2006. The costs for First-Class Mail and Standard Mail letters are sourced from the file CARM05_LL_Detail_3RGrpCasing Pure from LR-67 in R2006.

These BY costs are then adjusted to TY by the same factors used in LR-67 from R2006

FC Presort - Letter-Shape Pieces Only	315,543
TY Adjustment Factor	1.0327
FC Presort - Letter-Shape Pieces Only TY	325,873.03
Standard Regular - Letters	263,998
TY Adjustment Factor	1.213469719
Standard Regular - Letters	320353.579

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Appendix A: Rural Delivery Unit Costs

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USPS-LR-L-67 - Revised 3/15/06

DEVELOPMENT OF BY 2005 RURAL CARRIER KEY

SOURCE: USPS-LR-L-5, CS10.XLS, W/S 10.1.2 and 10.2.2 for Costs

SOURCE: USPS-LR-L-5, CS10.xls, Inputs DK for Volumes

Line No.		Letters	Flats	Parcels	Boxholder	DPS	Sec Seg	Postage Due	Ltr/Fit Collected	Parcels Accepted	Total Delivered	Total Incl Collections
	Col. No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Units	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
	Source / Calculations					L4,6,10, = cost / volume					=C1..C9	
1	Evaluated and Other Routes Combined											
2	First-Class											
3	Single-Piece	89,614	34,031	36,264	10	76,112	4,596	445	62,492	10,614	241,072	314,178
4	Unit Cost	0.0451	0.0530	0.2831	0.0310	0.0156	0.0442	0.0803	0.0180	1.1661		
5	Presort	117,746	11,951	966	143	161,358	8,794	16	-	-	300,974	300,974
6	Unit Cost	0.0451	0.0530	0.2831	0.0310	0.0156	0.0442	0.0803	-	-		
7	Periodicals	4,495	144,278	1,538	185	243	84	0	-	-	150,823	150,823
8	Unit Cost	0.0451	0.0530	0.2831	0.0340	0.0156	0.0442	0.0803				
9	Standard Mail (A)											
10	ECR	94,956	341,733	5,199	55,175	19,491	2,122	-			518,676	518,676
11	Unit Cost	0.0451	0.0530	0.2831	0.0310	0.0156	0.0442					
12	Regular	139,479	200,566	67,072	8,152	159,138	7,382	25			581,814	581,814
13	Unit Cost	0.0451	0.0530	0.2831	0.0310	0.0156	0.0442					
14	Package Services											
15	Bound Printed Matter	30	4,000	20,792	216	3	2	8	3	239	25,050	25,050
16	Unit Cost	0.0451	0.0530	0.2831	0.0310	0.0156	0.0442	0.0803	0.0180	1.1661		
17	Media Mail	1	344	9,996	-	1	1	5	21	1,673	10,347	10,347
18	Unit Cost	0.0451	0.0530	0.2831	-	0.0156	0.0442	0.0803	0.0180	1.1661		

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Appendix A: Total Delivery Unit Savings

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First-Class Mail Delivery Saving Savings

[1]	Total First-Class Mail Volume	1,400,000,000	1,400,000,000	1,400,000,000
First-Class Mail CCS Savings				
	FCM In-Office Direct Labor Casing Plus Non-Casing Cost			
[2]	Per CCS Piece - Cased Pieces	\$0.04755	\$0.04908	\$0.05023
[3]	Test Year Piggyback - City Delivery (PRC)	1.272013241	1.272013241	1.272013241
	FCM Total In-Office Direct Labor Casing Plus Non-Casing			
[4]	Cost Per CCS Piece - Cased Pieces	\$0.06048	\$0.06243	\$0.06389
	FCM In-Office Direct Labor Non-Casing Cost Per CCS			
[5]	Piece - Applied to All Pieces	\$0.00218	\$0.00225	\$0.00230
[6]	Test Year Piggyback (PRC) - City Delivery	1.272013241	1.272013241	1.272013241
	FCM Total In-Office Direct Labor Non-Casing Cost Per			
[7]	CCS Piece - Applied to All Pieces	\$0.00277	\$0.00286	\$0.00293
[8]	FCM CCS Unit Savings from DPS	0.057705519	0.059570062	0.060958045
First-Class Mail RCS Savings				
	FCM Presort Letters Unit Cost	\$0.04367	\$0.04508	\$0.04613
[10]	Test Year Piggyback - City Delivery (PRC)	1.195843741	1.195843741	1.195843741
[11]	Total FCM Presort Letters Unit Cost	\$0.052218	\$0.053905	\$0.055161
[12]	FCM Presort DPS Letters Unit Cost	\$0.01509	\$0.01558	\$0.01594
[13]	Test Year Piggyback (PRC) - City Delivery	1.19584	1.19584	1.19584
[14]	Total FCM Presort Letters Unit Cost	\$0.01804	\$0.01863	\$0.01906
[15]	FCM RCS Unit Savings from DPS	0.034173302	0.035277487	0.036099453
[16]	Estimated Improvement	0.10%	0.70%	1.30%
[17]	Increase in DPS Volume	1,400,000	9,800,000	18,200,000
[18]	USPS CCS Volume Percent	69.62%	69.62%	69.62%
[19]	Increased BAC DPS Volume Estimated at CCS	974,733	6,823,128	12,671,524
[20]	USPS RCS Volume Percent	30.38%	30.38%	30.38%
[21]	Increased BAC DPS Volume Estimated at RCS	425,267	2,976,872	5,528,476
[22]	BAC FCM CCS Savings	\$56,247	\$406,454	\$772,431
[23]	BAC FCM RCS Savings	\$14,533	\$105,017	\$199,575
[24]	Total BAC First-Class Mail Delivery Savings	\$70,780	\$511,471	\$972,006

- | | |
|---|--|
| [1] "Input-Data" - 1 + 2 | [13] USPS-LR-L-101 Line 3 |
| [2] "Savings - CCS Delivery" Column 11 | [14] 12 * 13 |
| [3] USPS-LR-L-101 Line 3 | [15] 11 - 14 |
| [4] 2 * 3 | [16] "Model Assumptions" Line 9 |
| [5] "Savings - CCS Delivery" Column 12 | [17] 16 * 1 |
| [6] USPS-LR-L-101 Line 3 | [18] USPS-LR-L-101 First-Class and Standard Mail DPS % |
| [7] 5 * 6 | [19] 17 * 18 |
| [8] 4 - 7 | [20] 1 - 18 |
| [9] "Savings -RCS Delivery" Column 1 Line 5 | [21] 17 * 20 |
| [10] USPS-LR-L-101 Line 3 | [22] 8 * 19 |
| [11] 9 * 10 | [23] 15 * 21 |
| [12] "Savings - RCS Delivery" Column 5 Line 5 | [24] 22 + 23 |

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Total FCM Delivery Savings

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Appendix A: Total Delivery Unit Savings

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Standard Mail Delivery Saving Savings

[1]	Total Standard Mail Volume	1,900,000,000	1,900,000,000	1,900,000,000
Standard Mail CCS Savings				
[2]	Standard Mail In-Office Direct Labor Casing Plus Non-Casing Cost Per CCS Piece - Cased Pieces	\$0.02719	\$0.02807	\$0.02872
[3]	Test Year Piggyback - City Delivery (PRC)	1.268883903	1.268883903	1.268883903
[4]	Standard Mail Total In-Office Direct Labor Casing Plus Non-Casing Cost Per CCS Piece - Cased Pieces	\$0.03450	\$0.03561	\$0.03644
[5]	Standard Mail 'In-Office Direct Labor Non-Casing Cost Per CCS Piece - Applied to All Pieces	\$0.00145	\$0.00149	\$0.00153
[6]	Test Year Piggyback - Rural Delivery (PRC)	1.268883903	1.268883903	1.268883903
[7]	Standard Total 'In-Office Direct Labor Non-Casing Cost Per CCS Piece - Applied to All Pieces	\$0.00183	\$0.00189	\$0.00194
[8]	Standard Mail CCS Unit Savings from DPS	0.032665872	0.033721351	0.034507058
Standard Mail RCS Savings				
[9]	Standard Mail Presort Letters Unit Cost	\$0.04367	\$0.04508	\$0.04613
[10]	Test Year Piggyback - City Delivery (PRC)	1.19470471	1.19470471	1.19470471
[11]	Total Standard Mail Presort Letters Unit Cost	\$0.052168	\$0.053854	\$0.055109
[12]	Standard Mail Presort DPS Letters Unit Cost	\$0.01509	\$0.01558	\$0.01594
[13]	Test Year Piggyback - Rural Delivery (PRC)	1.19470	1.19470	1.19470
[14]	Total Standard Mail Presort Letters Unit Cost	\$0.01803	\$0.01861	\$0.01904
[15]	Standard Mail RCS Unit Savings from DPS	0.034140752	0.035243886	0.036065068
[16]	Estimated Improvement	0.10%	0.70%	1.60%
[17]	Increase in DPS Volume	1,900,000	13,300,000	30,400,000
[18]	USPS CCS Volume Percent	69.95%	69.95%	69.95%
[19]	Increased BAC DPS Volume Estimated at CCS	1,328,964	9,302,747	21,263,423
[20]	USPS RCS Volume Percent	30.05%	30.05%	30.05%
[21]	Increased BAC DPS Volume Estimated at RCS	571,036	3,997,253	9,136,577
[22]	BAC Standard Mail CCS Savings	\$43,412	\$313,701	\$733,738
[23]	BAC Standard Mail RCS Savings	\$19,496	\$140,879	\$329,511
[24]	Total BAC Standard Mail Delivery Savings	\$62,907	\$454,580	\$1,063,249

- | | |
|--|--|
| [1] "Input-Data" - Line 3 | [13] USPS-LR-L-101 Line 3 |
| [2] "Savings - CCS Delivery" Column 11 | [14] 12 * 13 |
| [3] USPS-LR-L-101 Line 3 | [15] 11 - 14 |
| [4] 2 * 3 | [16] "Model Assumptions" Line 10 |
| [5] "Savings - CCS Delivery" Column 12 | [17] 16 * 1 |
| [6] USPS-LR-L-101 Line 3 | [18] USPS-LR-L-101 First-Class and Standard Mail DPS % |
| [7] 5 * 6 | [19] 17 * 18 |
| [8] 4 - 7 | [20] 1 - 18 |
| [9] "Savings - RCS Delivery" Column 1 Line 13 | [21] 17 * 20 |
| [10] USPS-LR-L-101 Line 3 | [22] 8 * 19 |
| [11] 9 * 10 | [23] 15 * 21 |
| [12] "Savings - RCS Delivery" Column 5 Line 15 | [24] 22 + 23 |

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Appendix A: Confirm Pricing

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	Year 1	Year 2	Year 3
[1] Total First-Class Mail Volume	1,400,000,000	1,400,000,000	1,400,000,000
[2] Total Standard Mail Volume	1,900,000,000	1,900,000,000	1,900,000,000
Scans			
[3] First-Class Mail	1,400,000,000	1,400,000,000	1,400,000,000
[4] Standard Mail	9,500,000,000	9,500,000,000	9,500,000,000
[5] Total Scans	10,900,000,000	10,900,000,000	10,900,000,000
Fees			
[6] Initial fee (Platinum)	\$5,000	\$5,000	\$5,000
[7] First 9 Blocks	\$630	\$630	\$630
[8] Next 90 Blocks	\$3,150	\$3,150	\$3,150
[9] Remaining Blocks	\$189,000	\$189,000	\$189,000
[10] Total Fees	\$197,780	\$197,780	\$197,780

Sources:

- [1] BAC Total First-Class Mail Volume [Input Data: Operational Ltrs + Marketing Ltrs]
- [2] BAC Total Standard Mail Volume [Input Data]
- [3] Number of scans x [1]
- [4] Number of scans x [2]
- [5] [3] + [4]
- [6] Docket No. R2006-1
- [7] Docket No. R2006-1
- [8] Docket No. R2006-1
- [9] Docket No. R2006-1
- [10] [6] + [7] + [8] + [9]

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