

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

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POSTAL RATE AND FEE CHANGES, 2000 : Docket No. R2000-1
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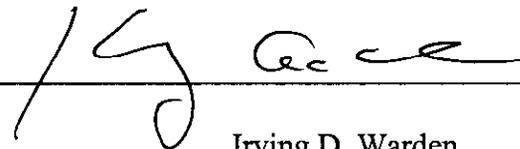
ERRATA TO AUGUST 23, 2000 REVISED AND UPDATED SUPPLEMENTARY
TESTIMONY OF CLIFTON (ABA&NAPM-ST-1) (ERRATA)

(August 30, 2000)

The American Bankers Association ("ABA"), the National Association of Presort Mailers, Inc. ("NAPM"), hereby file the attached Errata to the August 23, 2000 Revised And Updated Supplementary Testimony Of James A. Clifton (ABA&NAPM-ST-1).

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Henry A. Hart

August 30, 2000

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4 II. Test Year Cost Avoidance for First Class Workshared Letters Is on Balance
5 Unchanged, or Increased Slightly, as a Result of the Postal Service's 1294 Revisions
6

7 A. The 1294 Revisions Essentially Re-Allocate Cost Avoidance at the Margin
8 Among Rate Categories
9

10 In Table One, below, I have calculated new cost avoidances using the same refined work-
11 sharing related cost pool methodology I used in ABA&NAPM-T-1. For comparison purposes,
12 I have also reproduced my original cost avoidance estimates as found in that direct testimony.
13

14 Cost avoidance for a basic automation letter in First Class has increased by about [REDACTED]
15 of a cent, [REDACTED] cents compared to the Postal Service's original filing. Most of this change is
16 due to falling mail processing costs for the basic automation category rather than any change
17 in the (single piece) metered letter benchmark.² Cost avoidance for both the automation 3-
18 digit presort and 5-digit presort rate categories has decreased by about one-tenth of a cent
19 compared to the Postal Service's original filing, by [REDACTED] cents for a 3-digit letter and by
20 [REDACTED] cents for a 5-digit letter.
21

22 Given what I consider to be growing problems with Postal Service cost avoidance measures
23 for the presort part of worksharing activities, as discussed below in Section II. B., a more
24 useful indication of the change in cost avoidance may be made by comparing the change in
25 the (single piece) metered mail benchmark with the change in the CRA aggregate before the
26 modeled cost methodology is applied to develop specific rate categories at varying levels of
27 presortation. This can be done for mail processing. In the Postal Service's original filing using
28 my refined methodology, the difference in unit mail processing costs in cents between a
29 metered letter and automation non-carrier route presort letters was 10.601 – 4.005, or 6.596
30 cents. In its revised filing using my refined methodology, the difference is 10.465 – 3.711, or
31 6.754 cents. This indicates an increase in mail processing cost avoidance of 0.158 cents

² Thus, even if mail processing costs for various categories of First Class single piece mail are falling, they continue to fall faster for the prebarcoded mail, and it is a consideration of both factors, not just the former, on which the Commission must develop discounts based on cost avoidance.

1
2
3 between the original and revised USPS cases for the three rate categories combined in Table
4 One, before the application of the cost models. The change is being driven mainly by the
5 automation rate categories, not by the (single piece) metered mail benchmark.

6
7
8 **Table One**

9
10 ABA&NAPM Original and Revised Cost Avoidance Estimates

11

| <u>Original</u> | <u>MP</u> | <u>D</u> | <u>MP + D</u> | <u>Cost Avoidance</u> |
|---------------------|-----------|----------|---------------|-----------------------|
| First Class Letters | | | | |
| Metered | 10.601 | 5.479 | 16.080 | ----- |
| Basic Automation | 5.186 | 4.319 | 9.505 | 6.575 |
| 3D Auto | 4.224 | 4.196 | 8.420 | 1.085 |
| 5D Auto | 3.053 | 3.997 | 7.050 | 1.370 |
| <u>Revised</u> | | | | |
| First Class Letters | | | | |
| Metered | 10.465 | 5.410 | 15.875 | ----- |
| Basic Automation | ██████ | 4.308 | ██████ | ██████ |
| 3D Auto | ██████ | 4.191 | ██████ | ██████ |
| 5D Auto | ██████ | 4.002 | ██████ | ██████ |

12
13 Source: ABA&NAPM-T-1, Exhibit A, Tables A1, A2, and A3; and Workpaper 1, page 11;
14 ABA&NAPM-ST-1, Exhibit A; USPS LR-I-95, Table 5

15
16
17 One could argue based on the discussion above that my discount and rate recommendations
18 should be altered slightly, by increasing the discount for basic automation by ████████ of a
19 cent, and reducing it by one-tenth of a cent for automation 3-digit presort and 5-digit presort
20 letters. However, I do not propose to do so for reasons stated below in Section II. B. having to
21 do with increasing problems in measuring the cost avoidance associated with presortation, as
22 distinct from prebarcoding, for First Class Mail.

Table A1

**Rate Category Unit Cost Estimation Based on R2000-1 Methodology
And Cost Pool Classification Refinements
(Cents)**

| Rate Category | Col 1 R2000-1 Model Costs | Col 2 BY99 Volume (000) | Col 3 Volume Weights | Col 4 Weighted Model Costs | Col 5 Refined Proportional Adjustment | Col 6 Refined Proportional Unit Costs | Col 7 Refined Fixed Unit Costs | Col 8 Refined Total Mail Processing Unit Costs |
|--|---------------------------------|-------------------------------|----------------------------|----------------------------------|--|--|--------------------------------------|--|
| | 1/ | 2/ | 3/ | 4/ | 5/ | 6/ | 7/ | 8/ |
| Automation Basic Presort | 4.189 | 5,022,276 | 0.135 | 0.567 | 0.860 | 3.601 | 1.198 | 4.799 |
| Automation 3-Digit Presort | 3.165 | 20,721,667 | 0.558 | 1.767 | 0.860 | 2.722 | 1.198 | 3.920 |
| Automation 5-Digit Presort | 1.755 | 7,699,788 | 0.207 | 0.364 | 0.860 | 1.509 | 1.198 | 2.707 * |
| Automation 5-Digit CSBCS | 2.268 | 3,668,568 | 0.099 | 0.224 | 0.860 | 1.950 | 1.198 | 3.148 * |
| Total | | 37,112,299 | | 2.923 | | | | |
| | | | | | | | | * The Automation 5-Digit and 5-Digit CSBCS Volume Weighted Average Combined is 2.849 |
| 1/ Rate categories model costs are from Table A4. | | | | | | | | |
| 2/ BY volumes are from the LR-I-420, Excel file LR20p2a.xls, page I-5 | | | | | | | | |
| 3/ Each volume in Col2 is divided by the total volume | | | | | | | | |
| 4/ Each volume weight in Col3 is multiplied by the corresponding unit costs in Col1 | | | | | | | | |
| 5/ Obtained by dividing the worksharing related proportional refined total unit cost (2.513) from Col4 in Table A2 by the total weighted model cost (2.923) from Col4 above | | | | | | | | |
| 6/ Proportional adjustment in Col5 multiplied R2000-1 model cost in Col1 | | | | | | | | |
| 7/ Fixed adjustment is the refined total unit cost for worksharing related (fixed) from Col5 in Table A2 | | | | | | | | |
| 8/ Sum of Col6 and Col7 | | | | | | | | |