

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-001

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Postal Rate and Fees Changes, 1997

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Docket No. R97-1

Notice of ABA/EEI/NAPM Concerning
Errata to the Direct Testimony James A. Clifton
(ABA/EEI/NAPM-T-1)

(February 13, 1998)

American Bankers Association ("ABA"), Edison Electric Institute ("EEI"), and National Association of Presort Mailers ("NAPM") hereby file certain revisions to the Direct Testimony of James A. Clifton (ABA/EEI/NAPM-T-1). As noted in Dr. Clifton's response to USPS/ABA&EEI&NAPM/USPS-T1-10 (revised 2/12/98), a rejected roll-forward factor, -2.8%, was inadvertently reflected in the model runs attached as Technical Appendices C and D to his testimony. As noted in Dr. Clifton's testimony, however, the appropriate roll-forward factor is -3.6%. The revisions, which do not materially alter Dr. Clifton's testimony or his recommended rates for First-Class workshared mail, correct this editing oversight. For the convenience of the Commission and the parties, the revisions include: (a) revised pages 20-21, 33-35, and 42-45, reflecting corrected text and/or table(s), (b) revised Technical Appendices C and D, and (c) an errata sheet which identifies simple changes on the page identified.

Respectfully submitted,

American Bankers Association,
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

February 13, 1998


R. Brian Corcoran

1 Table 9 summarizes the effect of these dynamic scenarios on correcting USPS
2 witness Hatfield's unit mail processing costs for the four worksharing rate categories he
3 considers. Each of these scenarios is an improvement on witness Hatfield's estimates,
4 as each one attempts to build into the roll forward factor to test year CRA dynamics,
5 volume mix shifts, or other factors associated with new worksharing requirements,
6 much as USPS witness Hume built dynamic DPS factors into his test year unit delivery
7 costs.

8
9 The first column of Table 9 is USPS witness Hatfield's breakout of mail
10 processing unit costs by rate category for First-Class workshared letters in the test year.
11 The first scenario in the next two columns presents unit mail processing costs based on
12 my elasticity for volume mix shifts. The second scenario presents test year 1998 unit
13 mail processing costs by rate category using a roll forward factor which extrapolates
14 CRA dynamics from FY1994 through FY1996 into test year 1998. Under this scenario,
15 for example, the 3-digit automation mail processing unit cost is 3.6151 cents, 0.9326
16 cents less than the 4.5477 cent figure proposed by witness Hatfield.

17
18 I have chosen a modest 3.6% decline as a roll forward factor to apply to the Hatfield
19 model. It is extremely conservative relative to the 25% decline in unit mail processing
20 costs that the Postal Service volume mix shift

Table 9
Comparison of First-Class Workshared Letters Unit Mail Processing Costs
Under Alternative Scenarios
(Test Year 1998, Cents per Piece)

	USPS R97-1 Proposed	Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts ¹		Historical Changes in Unit Costs FY94-FY96 Continue ¹		Weighted Historical Changes in Unit Costs FY94-FY96 and FY95-FY96, Adjusted ²	
	Unit Mail Processing Cost	Unit Mail Processing Cost	Difference from R97-1 Proposed	Unit Mail Processing Cost	Difference from R97-1 Proposed	Unit Mail Processing Cost	Difference from R97-1 Proposed
Retail Presort	7.1993	5.0179	-2.1814	5.7230	-1.4763	6.2145	-0.9848
Automation							
Basic	5.3188	3.7072	-1.6116	4.2281	-1.0907	4.5912	-0.7276
3-Digit	4.5477	3.1697	-1.3780	3.6151	-0.9326	3.9256	-0.6221
5-Digit	3.0266	2.1095	-0.9171	2.4059	-0.6207	2.6125	-0.4141
Carrier Route	2.2910	1.5968	-0.6942	1.8212	-0.4698	1.9776	-0.3134

Sources:

R97-1 Proposed: Direct Testimony of Sharon Daniel, USPS-T-29, Exhibit USPS-29C (revised 10/1/97).

Technical Appendices B.1 and B.2.

Attachment to USPS/ABA&EEI&NAPM-T1-4 (revised 2/12/98).

Notes:

¹ Based on cost segment 3 mail processing direct labor only.

² Based on cost segment 3 mail processing direct labor and overhead.

1 third, even with the proposed reduction in MC95-1 level discounts proposed by the
2 Postal Service in this case, the increase in discounts afforded Standard A Regular
3 automation mail in this case compared to the last rate case are on average about twice
4 those being afforded First Class automation mailers. There is a gross inequity between
5 First-class workshared and Standard A in the proposed "give-backs" that is not cost-
6 justified and that should be rectified by the Commission in its proposed rates.

7
8 In this case, for all the reasons enumerated above, I recommend that in setting
9 worksharing discounts for First-Class Mail, the Commission not only look to First-Class
10 single piece costs, but also the relationship of Standard A Regular subclass costs and
11 discounts as it compares to the relationship of First-Class worksharing costs and
12 discounts.

13
14 **F. A Correct Estimation of Postal Service Cost Models Using the**
15 **Commission's MC95-1 Methodology Warrants Discounts For First-Class**
16 **Workshared Letters Ranging from 6.8 to 8.9 Cents**
17

18 Based on the corrections I have made in Sections III.B. and C. above to the Postal
19 Service's roll forward factors, my test year mail processing and delivery unit costs by
20 rate category for First-Class workshared mail are as follows:

21
22 **Table 14**

23 **Corrected USPS Modeled Costs**
24 **(Cents-Per-Piece)**

25 <u>Rate Category</u>	26 <u>Mail</u>	27 <u>Processing</u>	28 <u>+ Delivery</u>	29 <u>Corrected</u>	30 <u>Combined Cost</u>	31 <u>USPS</u>
32 Retail presort	6.2145	3.8840	10.0985	11.3453		
33 Basic Automation	4.5912	3.4490	8.0402	9.0298		
34 3-Digit	3.9256	3.3900	7.3156	8.1997		
35 5-Digit	2.6125	3.3110	5.9235	6.5995		
36 Carrier Route	1.9776	3.8640	5.8416	6.4170		

37 Source: Technical Appendices B.1 and B.2, Attachment to
USPS/ABA&EEI&NAPM-T1-4 (revised 2/12/98).

1 Using the Postal Service's modeled costs approach for mail processing and
2 delivery and adjusting these models for the dynamic factors analyzed previously, to
3 which consideration must be given in estimating test year 1998 costs, would imply a
4 very conservative change in the discounts proposed by the USPS as follows:
5

6 **Table 15**
7 **Corrected Discounts Using Postal Service's Modeled Cost Methodology**
8 **(Cents-Per-Piece)**
9

10	11	12	13
	<u>Rate Category</u>	<u>USPS Discounts</u>	<u>Conservatively Corrected USPS Discounts</u>
14	Retail Presort	2.0	3.2
15	Basic Automation	5.5	6.5
16	3-Digit	6.5	7.4
17	5-Digit	8.1	8.8
18	Carrier Route	8.4	9.0

19
20 Such a correction is not sufficient in this case, however, because it is based
21 implicitly on the Postal Service's flawed and unsupported bulk-metered mail
22 benchmark. Instead, given my computation of mail processing and delivery costs, I
23 recommend a set of discounts using the Commission's procedure from MC95-1.¹²
24 These are as follows:

¹² This method is based on taking 78 percent of the full cost differences and applying this as the discount for the basic automation rate for First-Class workshared letters. Other automation rates are figured as additional discounts from the basic automation tier. (See MC95-1, O&RD, para. [4302], pp. IV-136-137).

Table 16

**Proposed Discounts Using Commission's MC95-1 Methodology
(Cents-Per-Piece)**

Test Year 1998 Costs and Discounts in Cents

Single-piece Mail Processing and Delivery	16.7434	
Basic Automation Mail Processing and Delivery	<u>8.0402</u>	
Difference	8.7032	<u>Rounded Discounts</u>
Discount for Basic Automation (78% of Difference)	6.7885	6.8 cents
3-Digit Discount	7.5131	7.5 cents
5-Digit Discount	8.9052	8.9 cents
Carrier Route Discount	NA	
Retail Presort Discount	NA	

My proposed discount for retail presort is 2.5 cents, and for carrier route presort, is 9 cents. This would retain the current discount for retail presort and pass through the added cost difference of a carrier route letter compared to a 5-digit letter from Table 14 above, about one tenth of one cent.

1 Postal pricing (though not as much as desirable) and lessen the social welfare loss
 2 caused by the Postal Service's rate proposals. The proposed rates that follow from this
 3 cost coverage constitute my formal recommendation for First-Class workshared rates in
 4 this docket.

5
 6 **Table 22**

7 **Proposed Rates with Cost Coverage Adjustments**

8	Retail Presort	30.0
9	Basic Automation	26.1
10	3-Digit ¹⁴	24.4
11	5-Digit	22.8
12	Carrier Route	22.5

13
 14 The test year revenue implications of my discount and rate proposals require
 15 some elaboration. First, my proposed changes in the discounts for workshared First-
 16 Class Mail are based on lower and more accurate cost calculations for the test year in
 17 the first instance, and an adoption of the Commission's MC95-1 methodology in lieu of
 18 the Postal Service's bulk-metered mail benchmark approach. The lower costs entail no
 19 revenue loss, but there is a very small revenue loss of \$117 million associated with my
 20 using the Commission's methodology. (See Technical Appendix C.1, page 5.)
 21 However, I propose a modest increase in the cost coverage of Standard A mail so that
 22 the test year revenue requirement is met.

¹⁴ In my expert opinion, there must be at least a one cent difference between the basic automation rate and the 3-digit rate to foster that added degree of worksharing.

1 With respect to my proposed 276% cost coverage for First-Class workshared
 2 mail, the cost coverage model developed in Technical Appendix C.2 projects a change
 3 in USPS test year finances as follows:

	USPS Finances with Proposed Discount and Cost <u>Coverage Changes</u>
10 Revenue	\$61,157
11 Revenue Requirement	\$61,103
12 Surplus/(Deficit)	54

13
 14 The revenue loss associated with my cost coverage and rate proposals for First-Class
 15 workshared mail is eliminated by raising the cost coverages of Standard A mail from
 16 the USPS proposed 167% to 175%. Notably, my proposal raises the revenue
 17 contribution that Standard A commercial mail makes to the Postal Service by about
 18 \$469 million.

19
 20 In this proceeding, the Postal Service introduced a separate own price elasticity
 21 for First-Class workshared mail for the first time ever. It shows that this mailstream is
 22 less price inelastic than First-Class mail as a whole. The price elasticity of First-Class
 23 workshared mail (-0.289) is not that different from the price elasticity of Standard A
 24 mail (-0.382 for Regular and -0.598 for ECR), yet the Postal Service's proposed rates and
 25 cost coverages are very different for the two workshared mailstreams. This is highly
 26 inequitable. Furthermore, while both mailstreams are highly price inelastic, the new
 27 own price elasticity for workshared First-Class mail indicates that there are competitive
 28 alternatives to the Postal Service for this mailstream just as there are competitive
 29 alternatives for Standard A workshared mail. Therefore, economic efficiency would

1 appear to require that the cost coverages and rates for the two mailstreams be closer
2 than those proposed in this case by the Postal Service.

3
4 **V. Conclusion: The Modest Revenue Requirement in This Rate Case Affords the**
5 **Commission a Unique Opportunity for Long-Overdue Rate Restructuring and**
6 **Cost Coverage Rationality, and First-Class Workshared Letter Mail is the**
7 **Place to Begin**

8
9 In this docket, I am presenting two pieces of direct testimony:

10 (1) ABA/EEI/NAPM-T-1; (2) ABA/NAA-T-1. This testimony sets discounts for First-
11 Class workshared letter mail that are very conservative in light of the cost justification
12 analysis I present. That testimony also argues that, on grounds of economic efficiency
13 and equity, the cost coverage proposed by the Postal Service (283.3%) and the coverage
14 that emerges from my proposed discounts alone (287.1%) are too high. I propose a
15 more efficient and equitable set of rates which are based on cost coverage of 276%, and
16 make an adjustment in the cost coverage of Standard A workshared mail to keep my
17 proposal revenue neutral in the test year.

18
19 The other testimony is related to this testimony in that it demonstrates that the
20 cost coverage for the second and third ounces of First-Class workshared letter mail is
21 also too high (920%), and that the proposed 23 cent rate for the second and third ounces
22 is not at all cost-justified. The extra-ounce rate is also not equitable in light of the fact
23 that the second and third ounces of Standard A workshared letter mail pays a zero cent
24 extra-ounce rate. In that testimony, I propose an extra-ounce rate for First-Class
25 workshared letters based on a more-than-fair cost coverage of 420%. As with this
26 testimony, I keep my proposal revenue neutral in the test year by making a further
27 adjustment to the cost coverage of Standard A workshared mail.

28

1 The effects of both sets of proposals on USPS test year revenues, costs, volumes,
2 and cost coverages, and rates, are presented in detail in Appendix D. For First-Class
3 Mail, the effect of my proposals is to reduce the Postal Service's proposed cost coverage
4 from 199.47% to 197.33%. For First-Class workshared mail, the effect of my proposals
5 is to reduce the cost coverage from the Postal Service's proposed 283% to 271%. For
6 Standard A mail, the impact of all my proposals is to raise the cost coverage from the
7 Postal Service's proposed 167.04% to my proposed 177.50%. While I do not make any
8 formal rate recommendation for Standard A mail, most cost coverage is based on an
9 assumed uniform increase in the rates for the standard regular and ECR subclasses only
10 beyond the rates proposed by the Postal Service.

11
12 Under my combined proposals, the Postal Service has a net surplus of \$41.4
13 million in the test year and emerges with a set of postal rates that are more efficient and
14 equitable than those it has proposed. My proposed set of fully cost-justifiable rates is
15 also based, in part, on a principled rate restructuring that reflects what the general
16 public finds of greatest value in the nation's postal services and what it finds of lesser,
17 little or even negative value. These fundamental questions of rate restructuring that
18 better reflect the general public's needs and desires are particularly appropriate in this
19 case because the overall revenue needs of the Postal Service were relatively modest
20 when this case was filed in July and appear to be even more modest in light of
21 accounting period statements released since July. These fundamental questions should
22 be raised by the Commission because it is also the right thing to do.

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Cost Coverage			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	287.06%	3.74%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	199.47%	200.98%	1.51%
<i>Total Periodical</i>	106.10%	106.10%	0.00%
Standard Single Piece			
Standard Regular	154.52%	154.52%	0.00%
Standard Regular Enhanced Carrier Route	228.30%	228.30%	0.00%
Standard Regular and Enhanced Carrier Route	174.17%	174.17%	0.00%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	167.04%	167.04%	0.00%
<i>Total Standard B</i>	121.85%	121.85%	0.00%
<i>Priority Mail, Express Mail and Mailgrams</i>	194.17%	194.17%	0.00%
<i>Postal Penalty and Free-for-the Blind</i>	0.00%	0.00%	0.00%
<i>International Mail</i>	136.30%	136.30%	0.00%
<i>Special Services</i>	159.52%	159.52%	0.00%
<i>Attributable Costs</i>	178.42%	178.92%	0.50%
Total	100.06%	99.81%	-0.25%

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

Cost Coverage Model

ABA/EEI/NAPM-T-1
 Technical Appendix C.1

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Page 3 of 26 (Revised 2/12/98)

Key Rate per Piece (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.310	0.305	-0.005	-1.6%
Automated Basic Letters	0.275	0.262	-0.013	-4.7%
Automated Basic Flats	0.300	0.290	-0.010	-3.3%
Automated 3-Digit Letters	0.265	0.255	-0.010	-3.8%
Automated 5-Digit Letters	0.249	0.241	-0.008	-3.2%
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%
Automated Carrier-Route Letters	0.246	0.240	-0.006	-2.4%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated Basic Flats	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated 3/5-Digit Flats	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%
First-Class Stamped Cards	0.210	0.210	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%
Automated Basic Cards	0.176	0.166	-0.010	-5.7%
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%
Standard Single Piece	0.330	0.330	0.000	0.0%
Standard Regular				
Nonautomated Basic Letters	0.247	0.247	0.000	0.0%
Nonautomated Basic Nonletters	0.300	0.300	0.000	0.0%
Nonautomated Presort Letters	0.209	0.209	0.000	0.0%
Nonautomated Presort Nonletters	0.240	0.240	0.000	0.0%
Automated Basic Letters	0.189	0.189	0.000	0.0%
Automated Basic Flats	0.243	0.243	0.000	0.0%
Automated 3-Digit Letters	0.178	0.178	0.000	0.0%
Automated 5-Digit Letters	0.160	0.160	0.000	0.0%
Automated 3/5-Digit Flats	0.207	0.207	0.000	0.0%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.157	0.157	0.000	0.0%
Basic Letters	0.164	0.164	0.000	0.0%
Basic Nonletters	0.164	0.164	0.000	0.0%
High-Density Letters	0.143	0.143	0.000	0.0%
High-Density Nonletters	0.153	0.153	0.000	0.0%
Saturation Letters	0.134	0.134	0.000	0.0%
Saturation Nonletters	0.141	0.141	0.000	0.0%

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Key Rate per Piece (Dollars per Piece) continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1.

Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.

Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)				
	Alternate Proposal Compared to Proposed R97-1			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>	<u>Percent Difference</u>
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class Letters - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Workshared				
Second Ounce	0.230	0.230	0.000	0.0%
Third Ounce	0.230	0.230	0.000	0.0%
Above Third Ounce	0.230	0.230	0.000	0.0%
Standard Regular Addition for Pound Rate		0.000	0.000	---
Standard Regular Additional Ounces				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.041	0.041	0.000	---
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	---
Standard Enhanced Carrier Route				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.033	0.033	0.000	---

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Revenue Requirement (Million Dollars)				
	Alternate Proposal Compared to Proposed R97-1			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>	<u>Percent Difference</u>
Total Revenues	61,651.8	61,086.7	-565.125	-0.9%
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,204.0	-412.241	-0.7%
Net Surplus (Deficiency)	35.6	(117.2)	(152.9)	-429.0%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

	Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1	
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	53,598.402	51,770.960	-1,827.442	-3.4%
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,745.720	-591.100	-3.4%
First-Class PRM and QBRM Letters	919.400	887.958	-31.442	-3.4%
First-Class Letters and Flats - Workshared	41,033.182	43,226.340	2,193.158	5.3%
Nonautomated Presort	4,855.407	4,871.210	15.803	0.3%
Automated Basic Letters	4,308.327	4,499.318	190.991	4.4%
Automated Basic Flats	49.024	81.421	32.397	66.1%
Automated 3-Digit Letters	20,879.382	22,021.621	1,142.239	5.5%
Automated 5-Digit Letters	9,488.132	9,860.521	372.389	3.9%
Automated 3/5-Digit Flats	235.507	250.010	14.503	6.2%
Automated Carrier-Route Letters	1,217.403	1,642.239	424.836	34.9%
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,469.772	74.571	5.3%
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	401.717	20.382	5.3%
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	304.015	15.425	5.3%
First-Class Stamped Cards	583.005	583.005	0.000	0.0%
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%
Automated Basic Cards	340.549	316.386	-24.163	-7.1%
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%
Total First Class	101,074.031	101,474.189	400.158	0.4%
Total Periodical	10,257.973	10,257.973	0.000	0.0%
Standard Single Piece				
Standard Regular	37,627.554	37,627.554	0.000	0.0%
Nonautomated Basic Letters	2,373.994	2,373.994	0.000	0.0%
Nonautomated Basic Nonletters	1,832.877	1,832.877	0.000	0.0%
Nonautomated Presort Letters	2,902.289	2,902.289	0.000	0.0%
Nonautomated Presort Nonletters	2,075.756	2,075.756	0.000	0.0%
Automated Basic Letters	3,136.543	3,136.543	0.000	0.0%
Automated Basic Flats	259.382	259.382	0.000	0.0%
Automated 3-Digit Letters	9,535.365	9,535.365	0.000	0.0%
Automated 5-Digit Letters	6,358.646	6,358.646	0.000	0.0%
Automated 3/5-Digit Flats	9,152.702	9,152.702	0.000	0.0%
Standard Regular - Second Ounce	18,908.097	18,908.097	0.000	0.0%
Standard Regular - Third Ounce	11,086.356	11,086.356	0.000	0.0%
Standard Regular - Ounces Above Third	37,206.538	37,206.538	0.000	0.0%
Standard Regular Enhanced Carrier Route	28,686.182	28,686.182	0.000	0.0%
Automated	2,059.662	2,059.662	0.000	0.0%
Basic Letters	3,173.765	3,173.765	0.000	0.0%
Basic Nonletters	10,660.705	10,660.705	0.000	0.0%
High-Density Letters	392.986	392.986	0.000	0.0%
High-Density Nonletters	1,154.078	1,154.078	0.000	0.0%
Saturation Letters	3,086.387	3,086.387	0.000	0.0%
Saturation Nonletters	8,158.599	8,158.599	0.000	0.0%
Standard Enhanced Carrier Route - Second Ounce	18,077.614	18,077.614	0.000	0.0%
Standard Enhanced Carrier Route - Third Ounce	12,169.966	12,169.966	0.000	0.0%
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	37,051.988	0.000	0.0%
Standard Regular and Enhanced Carrier Route	66,313.736	66,313.736	0.000	0.0%
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%
Total Standard A	79,435.987	79,435.987	0.000	0.0%

Volume (Million Pieces) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
Total Domestic Mail	193,380.733	193,780.891	400.158	0.2%
International Mail	1,006.682	1,006.682	0.000	0.0%
Total Domestic and International Mail	194,387.415	194,787.573	400.158	0.2%

Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15) (revised 8/22/97).

Revenue (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,137.619	-604.934	-3.4%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,851.516	-135.953	-3.4%
First-Class PRM and QBRM Letters	275.820	266.387	-9.433	-3.4%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,670.552	204.544	1.8%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	11,152.938	179.157	1.6%
Nonautomated Presort	1,508.028	1,488.534	-19.494	-1.3%
Automated Basic Letters	1,184.790	1,178.821	-5.969	-0.5%
Automated Basic Flats	19.959	32.044	12.085	60.5%
Automated 3-Digit Letters	5,533.036	5,615.513	82.477	1.5%
Automated 5-Digit Letters	2,362.545	2,376.386	13.841	0.6%
Automated 3/5-Digit Flats	65.942	67.503	1.561	2.4%
Automated Carrier-Route Letters	299.481	394.137	94.656	31.6%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	338.048	17.151	5.3%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	92.395	4.688	5.3%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	69.923	3.548	5.3%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	34,138.621	-565.125	-1.6%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,022.045	0.000	0.0%
Nonautomated Basic Letters	586.377	586.377	0.000	0.0%
Nonautomated Basic Nonletters	431.007	431.007	0.000	0.0%
Nonautomated Presort Letters	581.072	581.072	0.000	0.0%
Nonautomated Presort Nonletters	336.537	336.537	0.000	0.0%
Automated Basic Letters	592.807	592.807	0.000	0.0%
Automated Basic Flats	46.060	46.060	0.000	0.0%
Automated 3-Digit Letters	1,624.239	1,624.239	0.000	0.0%
Automated 5-Digit Letters	968.666	968.666	0.000	0.0%
Automated 3/5-Digit Flats	1,193.906	1,193.906	0.000	0.0%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	1,511.516	1,511.516	0.000	0.0%
Fees, Residual Shape, and Adjustments	149.859	149.859	0.000	0.0%
Standard Regular Enhanced Carrier Route	4,304.005	4,304.005	0.000	0.0%
Automated	323.367	323.367	0.000	0.0%
Basic Letters	520.497	520.497	0.000	0.0%
Basic Nonletters	1,229.214	1,229.214	0.000	0.0%
High-Density Letters	42.999	42.999	0.000	0.0%
High-Density Nonletters	76.576	76.576	0.000	0.0%
Saturation Letters	309.924	309.924	0.000	0.0%
Saturation Nonletters	532.594	532.594	0.000	0.0%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,227.347	0.000	0.0%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,326.050	0.000	0.0%

Revenue (Million Dollars) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	Alternate Proposal Compared to Proposed R97-1	
			<u>Difference</u>	<u>Percent Difference</u>
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
<i>Total Standard A</i>	13,878.891	13,878.891	0.000	0.0%
<i>Total Standard B</i>	1,712.281	1,712.281	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	5,198.586	5,198.586	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	---
Total Domestic Mail	57,619.284	57,054.159	-565.125	-1.0%
<i>International Mail</i>	1,643.844	1,643.844	0.000	0.0%
<i>Special Services</i>	2,049.606	2,049.606	0.000	0.0%
<i>Other Income</i>	217.242	217.242	0.000	0.0%
Attributable Revenue	61,529.976	60,964.851	-565.125	-0.9%
<i>Continuing Appropriations</i>	67.498	67.498	0.000	0.0%
<i>Investment Income</i>	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,086.720	-565.125	-0.9%

Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).

Costs (Million Dollars)				
			Alternate Proposal Compared to Proposed R97-1	
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>	<u>Percent Difference</u>
First-Class Letters and Flats - Single Piece	12,758.664	12,323.634	-435.030	-3.4%
First-Class Letters and Flats - Presort	4,047.084	4,065.590	18.506	0.5%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
Total First Class	17,398.132	16,985.891	-412.241	-2.4%
Total Periodical	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,191.674	0.000	0.0%
Standard Regular Enhanced Carrier Route	1,885.248	1,885.248	0.000	0.0%
Standard Regular and Enhanced Carrier Route	7,076.922	7,076.922	0.000	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
Total Standard A	8,308.850	8,308.850	0.000	0.0%
Total Standard B	1,405.285	1,405.285	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	2,677.289	2,677.289	0.000	0.0%
Postal Penalty and Free-for-the Blind	31.757	31.757	0.000	0.0%
Total Domestic Mail	31,824.787	31,412.546	-412.241	-1.3%
International Mail	1,206.030	1,206.030	0.000	0.0%
Special Services	1,284.854	1,284.854	0.000	0.0%
Other Variable Costs	170.322	170.322	0.000	0.0%
Attributable Costs	34,485.993	34,073.752	-412.241	-1.2%
Total Other Costs	26,683.278	26,683.278	0.000	0.0%
Prior Years Loss Recovery	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,203.963	-412.241	-0.7%

	Volume Variable Cost per Piece (Dollars per Piece)			Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).
	Proposed	Alternate		
	<u>R97-1</u>	<u>Proposal</u>		
First-Class Letters and Flats - Single Piec	0.2340	0.2340		
First-Class Letters and Flats - Presort	0.0986	0.0941		
First-Class Cards - Single Piece	0.1413	0.1413		
First-Class Cards - Private Presort	0.0650	0.0650		
Standard Regular	0.1380	0.1380		
Standard Regular Enhanced Carrier Rout	0.0657	0.0657		
			Mail Processing Cost	-0.30196
			Forwarding Cost	-0.00262

Discounts (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.025	0.005	25.0%
Automated Basic Letters	0.055	0.068	0.013	23.6%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.075	0.010	15.4%
Automated 5-Digit Letters	0.081	0.089	0.008	9.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.090	0.006	7.1%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.000	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.247	0.000	0.0%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.038	0.000	0.0%
Automated Basic Letters	0.058	0.058	0.000	0.0%
Automated 3-Digit Letters	0.069	0.069	0.000	0.0%
Automated 5-Digit Letters	0.087	0.087	0.000	0.0%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.300	0.000	0.0%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.060	0.000	0.0%
Automated Basic Flats	0.057	0.057	0.000	0.0%
Automated 3/5-Digit Flats	0.093	0.093	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.164	0.000	0.0%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.164	0.000	0.0%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%

Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.

Revenue per Piece (Dollars per Piece)			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	Alternate Proposal Compared to Proposed R97-1 <u>Difference</u>
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3056	-0.005
Automated Basic Letters	0.2750	0.2620	-0.013
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2550	-0.010
Automated 5-Digit Letters	0.2490	0.2410	-0.008
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2400	-0.006
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2470	0.000
Nonautomated Basic Nonletters	0.2352	0.2352	0.000
Nonautomated Presort Letters	0.2002	0.2002	0.000
Nonautomated Presort Nonletters	0.1621	0.1621	0.000
Automated Basic Letters	0.1890	0.1890	0.000
Automated Basic Flats	0.1776	0.1776	0.000
Automated 3-Digit Letters	0.1703	0.1703	0.000
Automated 5-Digit Letters	0.1523	0.1523	0.000
Automated 3/5-Digit Flats	0.1304	0.1304	0.000
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1570	0.000
Basic Letters	0.1640	0.1640	0.000
Basic Nonletters	0.1153	0.1153	0.000
High-Density Letters	0.1094	0.1094	0.000
High-Density Nonletters	0.0664	0.0664	0.000
Saturation Letters	0.1004	0.1004	0.000
Saturation Nonletters	0.0653	0.0653	0.000
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000

Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).

Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%

Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).

Fixed Weight Price Indices					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.3009	-0.0054
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3431	-0.0029
Automated Basic Letters	656.213	0.3085	0.3159	0.3036	-0.0123
Automated Basic Flats	10.180	0.7693	0.7236	0.7052	-0.0184
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2832	-0.0072
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2840	-0.0026
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7182	-0.0239
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3201	-0.0008
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2160	0.0000
Standard Regular Flats		0.2880	0.3043	0.3043	0.0000
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2459	0.0000
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3887	0.0000
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2196	0.0000
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3615	0.0000
Automated Basic Letters	528.261	0.2105	0.2069	0.2069	0.0000
Automated Basic Flats	52.064	0.3366	0.3147	0.3147	0.0000
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2193	0.0000
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.1977	0.0000
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2700	0.0000
Standard ECR Letters		0.1332	0.1423	0.1423	0.0000
Standard ECR Flats		0.1562	0.1551	0.1551	0.0000
Automated	302.099	0.1363	0.1458	0.1458	0.0000
Basic Letters	1,866.041	0.1377	0.1509	0.1509	0.0000
Basic Nonletters	2,341.886	0.1746	0.1734	0.1734	0.0000
High-Density Letters	61.473	0.1292	0.1263	0.1263	0.0000
High-Density Nonletters	248.190	0.1587	0.1579	0.1579	0.0000
Saturation Letters	654.207	0.1193	0.1176	0.1176	0.0000
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1335	0.0000
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0742	0.0142

Fixed Weight Price Indices continued					
	Base Period	Base Period	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
	Volumes	Weights			
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3361	-0.0053
Automated Basic Letters			0.2823	0.2695	-0.0128
Automated Basic Flats			0.7005	0.6780	-0.0225
Automated 3-Digit Letters			0.2687	0.2590	-0.0097
Automated 5-Digit Letters			0.2555	0.2477	-0.0078
Automated 3/5-Digit Flats			0.7302	0.7052	-0.0250
Automated Carrier-Route Letters			0.2559	0.2499	-0.0060
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2459	0.0000
Nonautomated Basic Nonletters			0.3887	0.3887	0.0000
Nonautomated Presort Letters			0.2017	0.2017	0.0000
Nonautomated Presort Nonletters			0.3253	0.3253	0.0000
Automated Basic Letters			0.1878	0.1878	0.0000
Automated Basic Flats			0.2978	0.2978	0.0000
Automated 3-Digit Letters			0.1721	0.1721	0.0000
Automated 5-Digit Letters			0.1517	0.1517	0.0000
Automated 3/5-Digit Flats			0.2304	0.2304	0.0000
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1458	0.0000
Basic Letters			0.1509	0.1509	0.0000
Basic Nonletters			0.1734	0.1734	0.0000
High-Density Letters			0.1263	0.1263	0.0000
High-Density Nonletters			0.1579	0.1579	0.0000
Saturation Letters			0.1176	0.1176	0.0000
Saturation Nonletters			0.1335	0.1335	0.0000

<u>Fixed Weight Price Indices continued</u>					
	<u>Base Period</u>		<u>Proposed R97-1</u>		<u>Alternate Proposal</u>
	<u>Volumes</u>	<u>Weights</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>
User Cost					
First-Class Letters Single Piece			0.0000	0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.0046	0.0070	0.0024
Automated Basic Letters			0.0336	0.0341	0.0005
Automated Basic Flats			0.0231	0.0272	0.0041
Automated 3-Digit Letters			0.0216	0.0242	0.0025
Automated 5-Digit Letters			0.0311	0.0363	0.0052
Automated 3/5-Digit Flats			0.0119	0.0130	0.0011
Automated Carrier-Route Letters			0.0650	0.0702	0.0052
First-Class Stamped Cards			0.0000	0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000	0.0000
Nonautomated Presort			0.0072	0.0140	0.0068
Automated Basic			0.0041	0.0066	0.0025
Automated 3-Digit			0.0217	0.0294	0.0078
Automated 5-Digit			0.0240	0.0299	0.0059
Automated Carrier-Route			0.0359	0.0489	0.0130
Standard Single Piece			0.0000	0.0000	0.0000
Standard Regular					
Nonautomated Basic Letters			0.0000	0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0179	0.0000
Nonautomated Presort Nonletters			0.0361	0.0361	0.0000
Automated Basic Letters			0.0191	0.0191	0.0000
Automated Basic Flats			0.0169	0.0169	0.0000
Automated 3-Digit Letters			0.0472	0.0472	0.0000
Automated 5-Digit Letters			0.0460	0.0460	0.0000
Automated 3/5-Digit Flats			0.0397	0.0397	0.0000
Standard Regular Enhanced Carrier Route					
Automated			0.0000	0.0000	0.0000
Basic Letters			0.0000	0.0000	0.0000
Basic Nonletters			0.0000	0.0000	0.0000
High-Density Letters			0.0000	0.0000	0.0000
High-Density Nonletters			0.0000	0.0000	0.0000
Saturation Letters			0.0000	0.0000	0.0000
Saturation Nonletters			0.0000	0.0000	0.0000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Key Rate to Revenue per Piece Adjustment					
	Base Period		Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1
	Volumes	Weights			Difference
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Key Rate to Fixed Weight Index Adjustment			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
<i>Standard Regular Enhanced Carrier Route</i>			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

Volume and Share Adjustments				
	<u>Volume Adjustment</u>	Test Year 1998 After Rates Tolley Proposed R97- 1 Unadjusted		Alternate Proposal Unadjusted
		Forecast	Volume	Volume
First-Class Letters Single Piece	0.47%	54,413,387	54,157,511	52,305,423
First-Class Letters Workshared	2.67%	41,033,182	39,967,926	42,104,148
First-Class Single Piece Cards	-1.04%	2,476,656	2,502,698	2,502,698
First-Class Presort Cards	3.58%	2,463,386	2,378,177	2,441,782
Standard Single Piece	1.21%	161,574	159,641	159,641
Standard Regular Letters	4.63%	24,306,837	23,231,926	23,231,926
Standard Regular Flats	2.57%	13,320,717	12,986,521	12,986,521
Standard ECR Letters	2.44%	8,712,800	8,505,278	8,505,278
Standard ECR Flats	5.33%	19,973,382	18,962,447	18,962,447
	<u>Share Adjustment</u>	Test Year 1998 After Rates Tolley Proposed R97- 1 Unadjusted		Alternate Proposal Unadjusted
		Forecast	Share	Share
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	11.44%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	49.88%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.14%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	3.72%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	11.25%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	15.47%
Automated Basic Letters	4.31%	12.90%	12.37%	12.37%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	36.53%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.76%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.78%
<p>Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).</p> <p>Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.</p>				

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Volume Forecasts				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
First-Class Letters and Flats - Single Piece				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
<i>Cross Elasticities - Sum</i>				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999102
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.964485
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
<i>Cross Volume Effects Lagged Four Quarters</i>				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
<i>Declining Worksharing User Costs</i>				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
First-Class Letters Workshared				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.010561
<i>Cross Elasticities - Sum</i>				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.998347
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.050168
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
<i>Declining Worksharing User Costs</i>				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
First-Class Private Single Piece Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
<i>Z-Variable</i>				
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Presort Cards</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209.508	2,209.508	2,209.508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
<u>Standard Single Piece</u>				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
<u>Standard Regular</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.018219
Flats		0.260348	0.992752	0.992752
Cross Elasticities - Sum				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
<u>Standard Regular Enhanced Carrier Route</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.982163
Flats		0.141174	1.026017	1.026017
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
<i>Personal Consumption Expenditures</i>	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts Technical Appendix C.1

Share Forecasts			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Nonautomated Presort</u>			
Unadjusted Share	15.57%	11.79%	11.44%
Share Adjusted for TYAR		11.83%	11.48%
Share Adjusted to Sum to Unity		11.83%	11.27%
Discount (Dollars per Piece)	0.025	0.020	0.025
Mu	0.0709	0.0765	0.0826
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0021
Average User Cost		0.0046	0.0070
<u>First-Class Automated Basic Letters</u>			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.60%
Share Adjusted to Sum to Unity		10.50%	10.41%
Discount (Dollars per Piece)	0.059	0.055	0.068
Mu	0.0311	0.0339	0.0341
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0035
Average User Cost		0.0336	0.0341
<u>First-Class Automated Basic Flats</u>			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.19%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
<u>First-Class Automated 3-Digit Letters</u>			
Unadjusted Share	48.30%	48.90%	49.88%
Share Adjusted for TYAR		50.88%	51.90%
Share Adjusted to Sum to Unity		50.88%	50.94%
Discount (Dollars per Piece)	0.066	0.065	0.075
Mu	0.0258	0.0214	0.0233
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0253
Average User Cost		0.0216	0.0242
<u>First-Class Automated 5-Digit Letters</u>			
Unadjusted Share	21.89%	22.02%	22.14%
Share Adjusted for TYAR		23.12%	23.24%
Share Adjusted to Sum to Unity		23.12%	22.81%
Discount (Dollars per Piece)	0.082	0.081	0.089
Mu	0.0352	0.0316	0.0370
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0117
Average User Cost		0.0311	0.0363
<u>First-Class Automated 3/5-Digit Flats</u>			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.58%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
First-Class Automated Carrier-Route Letters			
Unadjusted Share	3.37%	2.85%	3.72%
Share Adjusted for TYAR		2.97%	3.87%
Share Adjusted to Sum to Unity		2.97%	3.80%
Discount (Dollars per Piece)	0.090	0.084	0.090
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0007
Average User Cost		0.0650	0.0702
First-Class Nonautomated Presort Cards			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
First-Class Automated Basic Cards			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
First-Class Automated 3-Digit Cards			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
First-Class Automated 5-Digit Cards			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
First-Class Automated Carrier-Route Cards			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Nonautomated Presort Letters</u>			
Unadjusted Share	15.17%	11.25%	11.25%
Share Adjusted for TYAR		11.94%	11.94%
Discount (Dollars per Piece)	0.047	0.038	0.038
Mu	0.1119	0.1060	0.1060
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0023
Average User Cost		0.0179	0.0179
<u>Standard Regular Nonautomated Presort Nonletters</u>			
Unadjusted Share	19.86%	15.47%	15.47%
Share Adjusted for TYAR		15.58%	15.58%
Discount (Dollars per Piece)	0.081	0.060	0.060
Mu	0.1330	0.1190	0.1190
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0037
Average User Cost		0.0361	0.0361
<u>Standard Regular Automated Basic Letters</u>			
Unadjusted Share	14.85%	12.37%	12.37%
Share Adjusted for TYAR		12.90%	12.90%
Discount (Dollars per Piece)	0.073	0.058	0.058
Mu	0.0197	0.0190	0.0190
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0048
Average User Cost		0.0191	0.0191
<u>Standard Regular Automated Basic Flats</u>			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.95%
Discount (Dollars per Piece)	0.029	0.057	0.057
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0008
Average User Cost		0.0169	0.0169
<u>Standard Regular Automated 3-Digit Letters</u>			
Unadjusted Share	46.54%	36.53%	36.53%
Share Adjusted for TYAR		39.23%	39.23%
Discount (Dollars per Piece)	0.081	0.069	0.069
Mu	0.0468	0.0492	0.0492
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0080
Average User Cost		0.0472	0.0472
<u>Standard Regular Automated 5-Digit Letters</u>			
Unadjusted Share	14.29%	26.76%	26.76%
Share Adjusted for TYAR		26.16%	26.16%
Discount (Dollars per Piece)	0.101	0.087	0.087
Mu	0.0566	0.0462	0.0462
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0110
Average User Cost		0.0460	0.0460
<u>Standard Regular Automated 3/5-Digit Flats</u>			
Unadjusted Share	68.84%	68.78%	68.78%
Share Adjusted for TYAR		68.71%	68.71%
Discount (Dollars per Piece)	0.117	0.093	0.093
Mu	0.0422	0.0397	0.0397
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0367
Average User Cost		0.0397	0.0397

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>			
Standard Regular ECR Automated		23.64%	23.64%
Standard Regular ECR Automated Basic Letters		36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters		53.37%	53.37%
Standard Regular ECR High Density Letters		4.51%	4.51%
Standard Regular ECR High-Density Nonletters		5.78%	5.78%
Standard Regular ECR Saturation Letters		35.42%	35.42%
Standard Regular ECR Saturation Nonletters		40.85%	40.85%
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7			

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Cost Coverage			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	275.61%	-7.71%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	199.47%	198.46%	-1.00%
<i>Total Periodical</i>	106.10%	106.10%	0.00%
Standard Single Piece			
Standard Regular	154.52%	163.61%	9.09%
Standard Regular Enhanced Carrier Route	228.30%	240.87%	12.57%
Standard Regular and Enhanced Carrier Route	174.17%	183.81%	9.64%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	167.04%	175.12%	8.09%
<i>Total Standard B</i>	121.85%	121.85%	0.00%
<i>Priority Mail, Express Mail and Mailgrams</i>	194.17%	194.17%	0.00%
<i>Postal Penalty and Free-for-the Blind</i>	0.00%	0.00%	0.00%
<i>International Mail</i>	136.30%	136.30%	0.00%
<i>Special Services</i>	159.52%	159.52%	0.00%
<i>Attributable Costs</i>	178.42%	179.66%	1.24%
Total	100.06%	100.09%	0.03%

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Key Rate per Piece (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.310	0.300	-0.010	-3.2%
Automated Basic Letters	0.275	0.261	-0.014	-5.1%
Automated Basic Flats	0.300	0.290	-0.010	-3.3%
Automated 3-Digit Letters	0.265	0.244	-0.021	-7.9%
Automated 5-Digit Letters	0.249	0.228	-0.021	-8.4%
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%
Automated Carrier-Route Letters	0.246	0.225	-0.021	-8.5%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated Basic Flats	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated 3/5-Digit Flats	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%
First-Class Stamped Cards	0.210	0.210	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%
Automated Basic Cards	0.176	0.166	-0.010	-5.7%
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%
Standard Single Piece	0.330	0.330	0.000	0.0%
Standard Regular				
Nonautomated Basic Letters	0.247	0.247	0.000	0.0%
Nonautomated Basic Nonletters	0.300	0.300	0.000	0.0%
Nonautomated Presort Letters	0.209	0.221	0.012	5.7%
Nonautomated Presort Nonletters	0.240	0.252	0.012	5.0%
Automated Basic Letters	0.189	0.201	0.012	6.3%
Automated Basic Flats	0.243	0.255	0.012	4.9%
Automated 3-Digit Letters	0.178	0.190	0.012	6.7%
Automated 5-Digit Letters	0.160	0.172	0.012	7.5%
Automated 3/5-Digit Flats	0.207	0.219	0.012	5.8%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.157	0.169	0.012	7.6%
Basic Letters	0.164	0.176	0.012	7.3%
Basic Nonletters	0.164	0.176	0.012	7.3%
High-Density Letters	0.143	0.155	0.012	8.4%
High-Density Nonletters	0.153	0.165	0.012	7.8%
Saturation Letters	0.134	0.146	0.012	9.0%
Saturation Nonletters	0.141	0.153	0.012	8.5%

**Cost Coverage Model
 First-Class Workshared Rates at Formal Proposal with
 Standard (A) Commercial Cost Coverage Increase**

Key Rate per Piece (Dollars per Piece) continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	Alternate Proposal Compared to Proposed R97-1 <u>Difference</u>	<u>Percent Difference</u>
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class Letters - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Workshared				
Second Ounce	0.230	0.230	0.000	0.0%
Third Ounce	0.230	0.230	0.000	0.0%
Above Third Ounce	0.230	0.230	0.000	0.0%
Standard Regular Addition for Pound Rate		0.000	0.000	---
Standard Regular Additional Ounces				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.041	0.041	0.000	---
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	---
Standard Enhanced Carrier Route				
Second Ounce	0.000	0.000	0.000	---
Third Ounce	0.000	0.000	0.000	---
Above Third Ounce	0.033	0.033	0.000	---

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Revenue Requirement (Million Dollars)				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
Total Revenues	61,651.8	61,157.2	-494.668	-0.8%
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,102.8	-513.404	-0.8%
Net Surplus (Deficiency)	35.6	54.4	18.7	52.5%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

	Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1	
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	53,598.402	51,664.292	-1,934.110	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,711.218	-625.603	-3.6%
First-Class PRM and QBRM Letters	919.400	886.123	-33.277	-3.6%
First-Class Letters and Flats - Workshared	41,033.182	43,654.438	2,621.256	6.4%
Nonautomated Presort	4,855.407	4,555.892	-299.515	-6.2%
Automated Basic Letters	4,308.327	4,404.400	96.073	2.2%
Automated Basic Flats	49.024	79.694	30.670	62.6%
Automated 3-Digit Letters	20,879.382	21,827.083	947.701	4.5%
Automated 5-Digit Letters	9,488.132	9,763.032	274.900	2.9%
Automated 3/5-Digit Flats	235.507	244.708	9.201	3.9%
Automated Carrier-Route Letters	1,217.403	2,779.628	1,562.225	128.3%
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,484.328	89.127	6.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	405.696	24.360	6.4%
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	307.026	18.436	6.4%
First-Class Stamped Cards	583.005	583.005	0.000	0.0%
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%
Automated Basic Cards	340.549	316.386	-24.163	-7.1%
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%
Total First Class	101,074.031	101,793.784	719.753	0.7%
Total Periodical	10,257.973	10,257.973	0.000	0.0%
Standard Single Piece				
Standard Regular	37,627.554	37,259.927	-367.627	-1.0%
Nonautomated Basic Letters	2,373.994	4,208.111	1,834.117	77.3%
Nonautomated Basic Nonletters	1,832.877	2,139.124	306.247	16.7%
Nonautomated Presort Letters	2,902.289	2,354.023	-548.266	-18.9%
Nonautomated Presort Nonletters	2,075.756	1,760.033	-315.723	-15.2%
Automated Basic Letters	3,136.543	3,096.007	-40.536	-1.3%
Automated Basic Flats	259.382	256.204	-3.178	-1.2%
Automated 3-Digit Letters	9,535.365	8,141.179	-1,394.186	-14.6%
Automated 5-Digit Letters	6,358.646	6,266.499	-92.147	-1.4%
Automated 3/5-Digit Flats	9,152.702	9,038.748	-113.954	-1.2%
Standard Regular - Second Ounce	18,908.097	18,723.362	-184.735	-1.0%
Standard Regular - Third Ounce	11,086.356	10,978.041	-108.315	-1.0%
Standard Regular - Ounces Above Third	37,206.538	36,843.025	-363.514	-1.0%
Standard Regular Enhanced Carrier Route	28,686.182	27,692.407	-993.775	-3.5%
Automated	2,059.662	1,988.882	-70.780	-3.4%
Basic Letters	3,173.765	3,064.699	-109.066	-3.4%
Basic Nonletters	10,660.705	10,290.093	-370.612	-3.5%
High-Density Letters	392.986	379.481	-13.505	-3.4%
High-Density Nonletters	1,154.078	1,113.957	-40.121	-3.5%
Saturation Letters	3,086.387	2,980.323	-106.064	-3.4%
Saturation Nonletters	8,158.599	7,874.971	-283.628	-3.5%
Standard Enhanced Carrier Route - Second Ounce	18,077.614	17,451.351	-626.263	-3.5%
Standard Enhanced Carrier Route - Third Ounce	12,169.966	11,748.362	-421.604	-3.5%
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	35,768.397	-1,283.592	-3.5%
Standard Regular and Enhanced Carrier Route	66,313.736	64,952.334	-1,361.402	-2.1%
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%
Total Standard A	79,435.987	78,074.585	-1,361.402	-1.7%

**Cost Coverage Model
 First-Class Workshared Rates at Formal Proposal with
 Standard (A) Commercial Cost Coverage Increase**

Volume (Million Pieces) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
Total Domestic Mail	193,380.733	192,739.084	-641.649	-0.3%
International Mail	1,006.682	1,006.682	0.000	0.0%
Total Domestic and International Mail	194,387.415	193,745.766	-641.649	-0.3%

Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Revenue (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,102.309	-640.244	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,843.580	-143.889	-3.6%
First-Class PRM and QBRM Letters	275.820	265.837	-9.983	-3.6%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,316.107	-149.902	-1.3%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	10,793.537	-180.244	-1.6%
Nonautomated Presort	1,508.028	1,369.357	-138.671	-9.2%
Automated Basic Letters	1,184.790	1,149.548	-35.242	-3.0%
Automated Basic Flats	19.959	31.365	11.405	57.1%
Automated 3-Digit Letters	5,533.036	5,325.808	-207.228	-3.7%
Automated 5-Digit Letters	2,362.545	2,225.971	-136.574	-5.8%
Automated 3/5-Digit Flats	65.942	66.071	0.129	0.2%
Automated Carrier-Route Letters	299.481	625.416	325.935	108.8%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	341.396	20.499	6.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	93.310	5.603	6.4%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	70.616	4.240	6.4%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	33,740.379	-963.367	-2.8%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,411.008	388.963	4.8%
Nonautomated Basic Letters	586.377	1,039.403	453.027	77.3%
Nonautomated Basic Nonletters	431.007	503.022	72.015	16.7%
Nonautomated Presort Letters	581.072	498.363	-82.709	-14.2%
Nonautomated Presort Nonletters	336.537	299.618	-36.920	-11.0%
Automated Basic Letters	592.807	622.297	29.491	5.0%
Automated Basic Flats	46.060	47.742	1.682	3.7%
Automated 3-Digit Letters	1,624.239	1,480.245	-143.994	-8.9%
Automated 5-Digit Letters	968.666	1,026.226	57.560	5.9%
Automated 3/5-Digit Flats	1,193.906	1,247.391	53.486	4.5%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	1,511.516	1,496.748	-14.768	-1.0%
Fees, Residual Shape, and Adjustments	149.859	149.953	0.093	0.1%
Standard Regular Enhanced Carrier Route	4,304.005	4,383.740	79.736	1.9%
Automated	323.367	336.121	12.754	3.9%
Basic Letters	520.497	539.387	18.890	3.6%
Basic Nonletters	1,229.214	1,273.297	44.083	3.6%
High-Density Letters	42.999	45.006	2.007	4.7%
High-Density Nonletters	76.576	79.711	3.135	4.1%
Saturation Letters	309.924	326.074	16.150	5.2%
Saturation Nonletters	532.594	557.830	25.236	4.7%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,184.828	-42.519	-3.5%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,794.748	468.698	3.8%

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Revenue (Million Dollars) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
Total Standard A	13,878.891	14,347.589	468.698	3.4%
Total Standard B	1,712.281	1,712.281	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	5,198.586	5,198.586	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	—
Total Domestic Mail	57,619.284	57,124.616	-494.668	-0.9%
<i>International Mail</i>	1,643.844	1,643.844	0.000	0.0%
<i>Special Services</i>	2,049.606	2,049.606	0.000	0.0%
<i>Other Income</i>	217.242	217.242	0.000	0.0%
Attributable Revenue	61,529.976	61,035.308	-494.668	-0.8%
<i>Continuing Appropriations</i>	67.498	67.498	0.000	0.0%
<i>Investment Income</i>	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,157.177	-494.668	-0.8%

Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Costs (Million Dollars)				
			Alternate Proposal Compared to Proposed R97-1	
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	12,758.664	12,298.241	-460.423	-3.6%
First-Class Letters and Flats - Presort	4,047.084	4,105.855	58.771	1.5%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
<i>Total First Class</i>	17,398.132	17,000.763	-397.370	-2.3%
<i>Total Periodical</i>	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,140.950	-50.723	-1.0%
Standard Regular Enhanced Carrier Route	1,885.248	1,819.937	-65.311	-3.5%
Standard Regular and Enhanced Carrier Route	7,076.922	6,960.888	-116.034	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
<i>Total Standard A</i>	8,308.850	8,192.816	-116.034	-1.4%
<i>Total Standard B</i>	1,405.285	1,405.285	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	2,677.289	2,677.289	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	31.757	31.757	0.000	0.0%
<i>Total Domestic Mail</i>	31,824.787	31,311.383	-513.404	-1.6%
<i>International Mail</i>	1,206.030	1,206.030	0.000	0.0%
<i>Special Services</i>	1,284.854	1,284.854	0.000	0.0%
<i>Other Variable Costs</i>	170.322	170.322	0.000	0.0%
<i>Attributable Costs</i>	34,485.993	33,972.589	-513.404	-1.5%
<i>Total Other Costs</i>	26,683.278	26,683.278	0.000	0.0%
<i>Prior Years Loss Recovery</i>	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,102.800	-513.404	-0.8%

	Volume Variable Cost per Piece (Dollars per Piece)		Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).
	Proposed R97-1	Alternate Proposal	
First-Class Letters and Flats - Single Piece	0.2340	0.2340	Note: In the alternate proposal, First-Class workshared BY98 volume variable costs as calculated by Patelunas may be adjusted to continue the historical CRA cost decline in mail processing and to include forwarding cost savings. In this particular scenario, the adjustments are: Mail Processing Cost -0.00196 Forwarding Cost -0.00262
First-Class Letters and Flats - Presort	0.0986	0.0941	
First-Class Cards - Single Piece	0.1413	0.1413	
First-Class Cards - Private Presort	0.0650	0.0650	
Standard Regular	0.1380	0.1380	
Standard Regular Enhanced Carrier Rout	0.0657	0.0657	

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Discounts (Dollars per Piece)				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.030	0.010	50.0%
Automated Basic Letters	0.055	0.069	0.014	25.5%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.086	0.021	32.3%
Automated 5-Digit Letters	0.081	0.102	0.021	25.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.105	0.021	25.0%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.012	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.247	0.000	0.0%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.026	-0.012	-31.6%
Automated Basic Letters	0.058	0.046	-0.012	-20.7%
Automated 3-Digit Letters	0.069	0.057	-0.012	-17.4%
Automated 5-Digit Letters	0.087	0.075	-0.012	-13.8%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.300	0.000	0.0%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.048	-0.012	-20.0%
Automated Basic Flats	0.057	0.045	-0.012	-21.1%
Automated 3/5-Digit Flats	0.093	0.081	-0.012	-12.9%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.176	0.012	7.3%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.176	0.012	7.3%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%

Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Revenue per Piece (Dollars per Piece)			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3006	-0.010
Automated Basic Letters	0.2750	0.2610	-0.014
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2440	-0.021
Automated 5-Digit Letters	0.2490	0.2280	-0.021
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2250	-0.021
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2470	0.000
Nonautomated Basic Nonletters	0.2352	0.2352	0.000
Nonautomated Presort Letters	0.2002	0.2117	0.011
Nonautomated Presort Nonletters	0.1621	0.1702	0.008
Automated Basic Letters	0.1890	0.2010	0.012
Automated Basic Flats	0.1776	0.1863	0.009
Automated 3-Digit Letters	0.1703	0.1818	0.011
Automated 5-Digit Letters	0.1523	0.1638	0.011
Automated 3/5-Digit Flats	0.1304	0.1380	0.008
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1690	0.012
Basic Letters	0.1640	0.1760	0.012
Basic Nonletters	0.1153	0.1237	0.008
High-Density Letters	0.1094	0.1186	0.009
High-Density Nonletters	0.0664	0.0716	0.005
Saturation Letters	0.1004	0.1094	0.009
Saturation Nonletters	0.0653	0.0708	0.006
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000

Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).

**Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase**

Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%

Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Fixed Weight Price Indices					
	Base Period	Base Period		Alternate Proposal	Alternate Proposal
	<u>Volumes</u>	<u>Weights</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Compared to</u> <u>Proposed R97-1</u>
					<u>Difference</u>
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.2947	-0.0116
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3405	-0.0055
Automated Basic Letters	656.213	0.3085	0.3159	0.3028	-0.0131
Automated Basic Flats	10.180	0.7693	0.7236	0.7052	-0.0184
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2749	-0.0155
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2764	-0.0102
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7182	-0.0239
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3168	-0.0041
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2197	0.0037
Standard Regular Flats		0.2880	0.3043	0.3120	0.0077
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2459	0.0000
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3887	0.0000
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2209	0.0013
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3651	0.0036
Automated Basic Letters	528.261	0.2105	0.2069	0.2159	0.0090
Automated Basic Flats	52.064	0.3366	0.3147	0.3273	0.0125
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2233	0.0040
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.2026	0.0049
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2803	0.0103
Standard ECR Letters		0.1332	0.1423	0.1508	0.0086
Standard ECR Flats		0.1562	0.1551	0.1645	0.0095
Automated	302.099	0.1363	0.1458	0.1546	0.0088
Basic Letters	1,866.041	0.1377	0.1509	0.1596	0.0088
Basic Nonletters	2,341.886	0.1746	0.1734	0.1835	0.0101
High-Density Letters	61.473	0.1292	0.1263	0.1345	0.0082
High-Density Nonletters	248.190	0.1587	0.1579	0.1676	0.0097
Saturation Letters	654.207	0.1193	0.1176	0.1256	0.0080
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1423	0.0087
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0753	0.0153

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Fixed Weight Price Indices continued					
				Alternate Proposal Compared to Proposed R97-1	
	Base Period <u>Volumes</u>	Base Period <u>Weights</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3308	-0.0106
Automated Basic Letters			0.2823	0.2685	-0.0138
Automated Basic Flats			0.7005	0.6780	-0.0225
Automated 3-Digit Letters			0.2687	0.2483	-0.0204
Automated 5-Digit Letters			0.2555	0.2349	-0.0206
Automated 3/5-Digit Flats			0.7302	0.7052	-0.0250
Automated Carrier-Route Letters			0.2559	0.2350	-0.0209
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2459	0.0000
Nonautomated Basic Nonletters			0.3887	0.3887	0.0000
Nonautomated Presort Letters			0.2017	0.2114	0.0097
Nonautomated Presort Nonletters			0.3253	0.3392	0.0139
Automated Basic Letters			0.1878	0.1976	0.0098
Automated Basic Flats			0.2978	0.3105	0.0126
Automated 3-Digit Letters			0.1721	0.1816	0.0095
Automated 5-Digit Letters			0.1517	0.1608	0.0091
Automated 3/5-Digit Flats			0.2304	0.2416	0.0112
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1546	0.0088
Basic Letters			0.1509	0.1596	0.0088
Basic Nonletters			0.1734	0.1835	0.0101
High-Density Letters			0.1263	0.1345	0.0082
High-Density Nonletters			0.1579	0.1676	0.0097
Saturation Letters			0.1176	0.1256	0.0080
Saturation Nonletters			0.1335	0.1423	0.0087

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Fixed Weight Price Indices continued				
	Base Period	Base Period		Alternate Proposal
	<u>Volumes</u>	<u>Weights</u>	<u>Proposed R97-1</u>	<u>Proposed R97-1</u>
				<u>Difference</u>
User Cost				
First-Class Letters Single Piece			0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000
First-Class Letters Workshared				
Nonautomated Presort			0.0046	0.0098
Automated Basic Letters			0.0336	0.0343
Automated Basic Flats			0.0231	0.0272
Automated 3-Digit Letters			0.0216	0.0265
Automated 5-Digit Letters			0.0311	0.0414
Automated 3/5-Digit Flats			0.0119	0.0130
Automated Carrier-Route Letters			0.0650	0.0818
First-Class Stamped Cards			0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000
Nonautomated Presort			0.0072	0.0140
Automated Basic			0.0041	0.0066
Automated 3-Digit			0.0217	0.0294
Automated 5-Digit			0.0240	0.0299
Automated Carrier-Route			0.0359	0.0489
Standard Single Piece			0.0000	0.0000
Standard Regular				
Nonautomated Basic Letters			0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0095
Nonautomated Presort Nonletters			0.0361	0.0258
Automated Basic Letters			0.0191	0.0183
Automated Basic Flats			0.0169	0.0168
Automated 3-Digit Letters			0.0472	0.0417
Automated 5-Digit Letters			0.0460	0.0418
Automated 3/5-Digit Flats			0.0397	0.0388
Standard Regular Enhanced Carrier Route				
Automated			0.0000	0.0000
Basic Letters			0.0000	0.0000
Basic Nonletters			0.0000	0.0000
High-Density Letters			0.0000	0.0000
High-Density Nonletters			0.0000	0.0000
Saturation Letters			0.0000	0.0000
Saturation Nonletters			0.0000	0.0000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Key Rate to Revenue per Piece Adjustment					
	Base Period	Base Period		Alternate Proposal	
	Volumes	Weights	Proposed R97-1	Compared to Proposed R97-1	
				Difference	
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Key Rate to Fixed Weight Index Adjustment			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Volume and Share Adjustments				
	<u>Volume Adjustment</u>	Test Year 1998 After Rates Tolley Volume <u>Forecast</u>	Proposed R97- 1 Unadjusted Volume	Alternate Proposal Unadjusted Volume
First-Class Letters Single Piece	0.47%	54,413.387	54,157.511	52,197.316
First-Class Letters Workshared	2.67%	41,033.182	39,967.926	42,521.131
First-Class Single Piece Cards	-1.04%	2,476.656	2,502.698	2,502.698
First-Class Presort Cards	3.58%	2,463.386	2,378.177	2,441.782
Standard Single Piece	1.21%	161.574	159.641	159.641
Standard Regular Letters	4.63%	24,306.837	23,231.926	23,001.565
Standard Regular Flats	2.57%	13,320.717	12,986.521	12,863.090
Standard ECR Letters	2.44%	8,712.800	8,505.278	8,212.995
Standard ECR Flats	5.33%	19,973.382	18,962.447	18,303.231
	<u>Share Adjustment</u>	Test Year 1998 After Rates Tolley Share <u>Forecast</u>	Proposed R97- 1 Unadjusted Share	Alternate Proposal Unadjusted Share
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	10.93%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	50.51%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.39%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	6.43%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	9.22%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	13.24%
Automated Basic Letters	4.31%	12.90%	12.37%	12.33%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	31.50%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.64%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.58%

Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).

Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Volume Forecasts				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
First-Class Letters and Flats - Single Piece				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
<i>Cross Elasticities - Sum</i>				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999427
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.962178
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
<i>Cross Volume Effects Lagged Four Quarters</i>				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
<i>Declining Worksharing User Costs</i>				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
First-Class Letters Workshared				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.016657
<i>Cross Elasticities - Sum</i>				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.998945
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.053577
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
<i>Declining Worksharing User Costs</i>				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
First-Class Private Single Piece Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
First-Class Presort Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209.508	2,209.508	2,209.508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
Standard Single Piece				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
Standard Regular				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.011583
Flats		0.260348	0.992752	0.983317
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
Standard Regular Enhanced Carrier Route				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.948411
Flats		0.141174	1.026017	0.990348
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
Personal Consumption Expenditures	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Share Forecasts			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>First-Class Nonautomated Presort</u>			
Unadjusted Share	15.57%	11.79%	10.93%
Share Adjusted for TYAR		11.83%	10.97%
Share Adjusted to Sum to Unity		11.83%	10.44%
Discount (Dollars per Piece)	0.025	0.020	0.030
Mu	0.0709	0.0765	0.0893
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0022
Average User Cost		0.0046	0.0098
<u>First-Class Automated Basic Letters</u>			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.61%
Share Adjusted to Sum to Unity		10.50%	10.09%
Discount (Dollars per Piece)	0.059	0.055	0.069
Mu	0.0311	0.0339	0.0343
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0036
Average User Cost		0.0336	0.0343
<u>First-Class Automated Basic Flats</u>			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.18%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
<u>First-Class Automated 3-Digit Letters</u>			
Unadjusted Share	48.30%	48.90%	50.51%
Share Adjusted for TYAR		50.88%	52.56%
Share Adjusted to Sum to Unity		50.88%	50.00%
Discount (Dollars per Piece)	0.066	0.065	0.086
Mu	0.0258	0.0214	0.0253
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0300
Average User Cost		0.0216	0.0265
<u>First-Class Automated 5-Digit Letters</u>			
Unadjusted Share	21.89%	22.02%	22.39%
Share Adjusted for TYAR		23.12%	23.51%
Share Adjusted to Sum to Unity		23.12%	22.36%
Discount (Dollars per Piece)	0.082	0.081	0.102
Mu	0.0352	0.0316	0.0418
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0136
Average User Cost		0.0311	0.0414
<u>First-Class Automated 3/5-Digit Flats</u>			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.56%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>First-Class Automated Carrier-Route Letters</u>			
Unadjusted Share	3.37%	2.85%	6.43%
Share Adjusted for TYAR		2.97%	6.69%
Share Adjusted to Sum to Unity		2.97%	6.37%
Discount (Dollars per Piece)	0.090	0.084	0.105
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0015
Average User Cost		0.0650	0.0818
<u>First-Class Nonautomated Presort Cards</u>			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
<u>First-Class Automated Basic Cards</u>			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
<u>First-Class Automated 3-Digit Cards</u>			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
<u>First-Class Automated 5-Digit Cards</u>			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
<u>First-Class Automated Carrier-Route Cards</u>			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Nonautomated Presort Letters</u>			
Unadjusted Share	15.17%	11.25%	9.22%
Share Adjusted for TYAR		11.94%	9.78%
Discount (Dollars per Piece)	0.047	0.038	0.026
Mu	0.1119	0.1060	0.0993
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0015
Average User Cost		0.0179	0.0095
<u>Standard Regular Nonautomated Presort Nonletters</u>			
Unadjusted Share	19.86%	15.47%	13.24%
Share Adjusted for TYAR		15.58%	13.34%
Discount (Dollars per Piece)	0.081	0.060	0.048
Mu	0.1330	0.1190	0.1112
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0029
Average User Cost		0.0361	0.0258
<u>Standard Regular Automated Basic Letters</u>			
Unadjusted Share	14.85%	12.37%	12.33%
Share Adjusted for TYAR		12.90%	12.86%
Discount (Dollars per Piece)	0.073	0.058	0.046
Mu	0.0197	0.0190	0.0183
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0034
Average User Cost		0.0191	0.0183
<u>Standard Regular Automated Basic Flats</u>			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.94%
Discount (Dollars per Piece)	0.029	0.057	0.045
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0005
Average User Cost		0.0169	0.0168
<u>Standard Regular Automated 3-Digit Letters</u>			
Unadjusted Share	46.54%	36.53%	31.50%
Share Adjusted for TYAR		39.23%	33.83%
Discount (Dollars per Piece)	0.081	0.069	0.057
Mu	0.0468	0.0492	0.0463
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0048
Average User Cost		0.0472	0.0417
<u>Standard Regular Automated 5-Digit Letters</u>			
Unadjusted Share	14.29%	26.76%	26.64%
Share Adjusted for TYAR		26.16%	26.04%
Discount (Dollars per Piece)	0.101	0.087	0.075
Mu	0.0566	0.0462	0.0423
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0088
Average User Cost		0.0460	0.0418
<u>Standard Regular Automated 3/5-Digit Flats</u>			
Unadjusted Share	68.84%	68.78%	68.58%
Share Adjusted for TYAR		68.71%	68.51%
Discount (Dollars per Piece)	0.117	0.093	0.081
Mu	0.0422	0.0397	0.0389
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0290
Average User Cost		0.0397	0.0388

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>			
Standard Regular ECR Automated		23.64%	23.64%
Standard Regular ECR Automated Basic Letters		36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters		53.37%	53.37%
Standard Regular ECR High Density Letters		4.51%	4.51%
Standard Regular ECR High-Density Nonletters		5.78%	5.78%
Standard Regular ECR Saturation Letters		35.42%	35.42%
Standard Regular ECR Saturation Nonletters		40.85%	40.85%

Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

ABA/EEL/NAPM-T-1
Technical Appendix D
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Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Cost Coverage			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	270.54%	-12.77%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	199.47%	197.33%	-2.14%
<i>Total Periodical</i>	106.10%	106.10%	0.00%
Standard Single Piece			
Standard Regular	154.52%	166.11%	11.59%
Standard Regular Enhanced Carrier Route	228.30%	245.06%	16.77%
Standard Regular and Enhanced Carrier Route	174.17%	186.67%	12.50%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	167.04%	177.50%	10.46%
<i>Total Standard B</i>	121.85%	121.85%	0.00%
<i>Priority Mail, Express Mail and Mailgrams</i>	194.17%	194.17%	0.00%
<i>Postal Penalty and Free-for-the Blind</i>	0.00%	0.00%	0.00%
<i>International Mail</i>	136.30%	136.30%	0.00%
<i>Special Services</i>	159.52%	159.52%	0.00%
<i>Attributable Costs</i>	178.42%	179.68%	1.26%
Total	100.06%	100.07%	0.01%

(Revised 2/12/98)

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Key Rate per Piece (Dollars per Piece)		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.310	0.300	-0.010	-3.2%
Automated Basic Letters	0.275	0.261	-0.014	-5.1%
Automated Basic Flats	0.300	0.290	-0.010	-3.3%
Automated 3-Digit Letters	0.265	0.244	-0.021	-7.9%
Automated 5-Digit Letters	0.249	0.228	-0.021	-8.4%
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%
Automated Carrier-Route Letters	0.246	0.225	-0.021	-8.5%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	---
Automated Basic Letters	0.000	0.000	0.000	---
Automated Basic Flats	0.000	0.000	0.000	---
Automated 3-Digit Letters	0.000	0.000	0.000	---
Automated 5-Digit Letters	0.000	0.000	0.000	---
Automated 3/5-Digit Flats	0.000	0.000	0.000	---
Automated Carrier-Route Letters	0.000	0.000	0.000	---
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.120	-0.110	-47.8%
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.120	-0.110	-47.8%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%
First-Class Stamped Cards	0.210	0.210	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%
Automated Basic Cards	0.176	0.166	-0.010	-5.7%
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%
Standard Single Piece	0.330	0.330	0.000	0.0%
Standard Regular				
Nonautomated Basic Letters	0.247	0.251	0.004	1.6%
Nonautomated Basic Nonletters	0.300	0.304	0.004	1.3%
Nonautomated Presort Letters	0.209	0.225	0.016	7.7%
Nonautomated Presort Nonletters	0.240	0.256	0.016	6.7%
Automated Basic Letters	0.189	0.205	0.016	8.5%
Automated Basic Flats	0.243	0.259	0.016	6.6%
Automated 3-Digit Letters	0.178	0.194	0.016	9.0%
Automated 5-Digit Letters	0.160	0.176	0.016	10.0%
Automated 3/5-Digit Flats	0.207	0.223	0.016	7.7%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.157	0.173	0.016	10.2%
Basic Letters	0.164	0.180	0.016	9.8%
Basic Nonletters	0.164	0.180	0.016	9.8%
High-Density Letters	0.143	0.159	0.016	11.2%
High-Density Nonletters	0.153	0.169	0.016	10.5%
Saturation Letters	0.134	0.150	0.016	11.9%
Saturation Nonletters	0.141	0.157	0.016	11.3%

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Key Rate per Piece (Dollars per Piece) continued					<i>(Revised 2/13/98)</i>
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>	
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—	
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—	
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%	

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)				<i>(Revised 2/12/98)</i>	
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>	
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%	
First-Class Letters - Workshared per Pound Rate					
Nonautomated Presort	0.000	0.000	0.000	---	
Automated Basic Letters	0.000	0.000	0.000	---	
Automated 3-Digit Letters	0.000	0.000	0.000	---	
Automated 5-Digit Letters	0.000	0.000	0.000	---	
Automated Carrier-Route Letters	0.000	0.000	0.000	---	
First-Class Workshared					
Second Ounce	0.230	0.120	-0.110	-47.8%	
Third Ounce	0.230	0.120	-0.110	-47.8%	
Above Third Ounce	0.230	0.230	0.000	0.0%	
Standard Regular Addition for Pound Rate		0.000	0.000	---	
Standard Regular Additional Ounces					
Second Ounce	0.000	0.000	0.000	---	
Third Ounce	0.000	0.000	0.000	---	
Above Third Ounce	0.041	0.041	0.000	---	
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	---	
Standard Enhanced Carrier Route					
Second Ounce	0.000	0.000	0.000	---	
Third Ounce	0.000	0.000	0.000	---	
Above Third Ounce	0.033	0.033	0.000	---	

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Revenue Requirement (Million Dollars)				<i>(Revised 2/12/98)</i>	
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>	
Total Revenues	61,651.8	61,119.2	-532.662	-0.9%	
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,077.8	-538.399	-0.9%	
Net Surplus (Deficiency)	35.6	41.4	5.7	16.0%	

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

	Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1	
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	53,598.402	51,678.396	-1,920.006	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,715.780	-621.041	-3.6%
First-Class PRM and QBRM Letters	919.400	886.366	-33.034	-3.6%
First-Class Letters and Flats - Workshared	41,033.182	43,882.863	2,849.681	6.9%
Nonautomated Presort	4,855.407	4,579.731	-275.676	-5.7%
Automated Basic Letters	4,308.327	4,427.446	119.119	2.8%
Automated Basic Flats	49.024	80.111	31.087	63.4%
Automated 3-Digit Letters	20,879.382	21,941.295	1,061.913	5.1%
Automated 5-Digit Letters	9,488.132	9,814.118	325.986	3.4%
Automated 3/5-Digit Flats	235.507	245.988	10.481	4.5%
Automated Carrier-Route Letters	1,217.403	2,794.173	1,576.770	129.5%
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,492.095	96.894	6.9%
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	407.819	26.483	6.9%
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	308.632	20.042	6.9%
First-Class Stamped Cards	583.005	583.005	0.000	0.0%
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%
Automated Basic Cards	340.549	316.386	-24.163	-7.1%
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%
Total First Class	101,074.031	102,036.556	962.525	1.0%
Total Periodical	10,257.973	10,257.973	0.000	0.0%
Standard Single Piece				
Standard Regular	37,627.554	37,047.001	-580.553	-1.5%
Nonautomated Basic Letters	2,373.994	4,182.172	1,808.178	76.2%
Nonautomated Basic Nonletters	1,832.877	2,128.653	295.776	16.1%
Nonautomated Presort Letters	2,902.289	2,339.513	-562.776	-19.4%
Nonautomated Presort Nonletters	2,075.756	1,751.418	-324.338	-15.6%
Automated Basic Letters	3,136.543	3,076.923	-59.620	-1.9%
Automated Basic Flats	259.382	254.950	-4.432	-1.7%
Automated 3-Digit Letters	9,535.365	8,090.997	-1,444.368	-15.1%
Automated 5-Digit Letters	6,358.646	6,227.872	-130.774	-2.1%
Automated 3/5-Digit Flats	9,152.702	8,994.504	-158.198	-1.7%
Standard Regular - Second Ounce	18,908.097	18,616.365	-291.732	-1.5%
Standard Regular - Third Ounce	11,086.356	10,915.306	-171.051	-1.5%
Standard Regular - Ounces Above Third	37,206.538	36,632.481	-574.057	-1.5%
Standard Regular Enhanced Carrier Route	28,686.182	27,381.104	-1,305.078	-4.5%
Automated	2,059.662	1,966.699	-92.963	-4.5%
Basic Letters	3,173.765	3,030.516	-143.249	-4.5%
Basic Nonletters	10,660.705	10,174.023	-486.682	-4.6%
High-Density Letters	392.986	375.248	-17.738	-4.5%
High-Density Nonletters	1,154.078	1,101.392	-52.686	-4.6%
Saturation Letters	3,086.387	2,947.082	-139.305	-4.5%
Saturation Nonletters	8,158.599	7,786.143	-372.456	-4.6%
Standard Enhanced Carrier Route - Second Ounce	18,077.614	17,255.173	-822.441	-4.5%
Standard Enhanced Carrier Route - Third Ounce	12,169.966	11,616.294	-553.673	-4.5%
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	35,366.308	-1,685.680	-4.5%
Standard Regular and Enhanced Carrier Route	66,313.736	64,428.105	-1,885.631	-2.8%
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%
Total Standard A	79,435.987	77,550.356	-1,885.631	-2.4%

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Volume (Million Pieces) - continued		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
Total Domestic Mail	193,380.733	192,457.627	-923.106	-0.5%
International Mail	1,006.682	1,006.682	0.000	0.0%
Total Domestic and International Mail	194,387.415	193,464.309	-923.106	-0.5%

Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Revenue (Million Dollars)		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,106.978	-635.575	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,844.629	-142.839	-3.6%
First-Class PRM and QBRM Letters	275.820	265.910	-9.910	-3.6%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,166.238	-299.770	-2.6%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	10,850.015	-123.766	-1.1%
Nonautomated Presort	1,508.028	1,376.522	-131.505	-8.7%
Automated Basic Letters	1,184.790	1,155.564	-29.226	-2.5%
Automated Basic Flats	19.959	31.529	11.569	58.0%
Automated 3-Digit Letters	5,533.036	5,353.676	-179.360	-3.2%
Automated 5-Digit Letters	2,362.545	2,237.619	-124.926	-5.3%
Automated 3/5-Digit Flats	65.942	66.417	0.475	0.7%
Automated Carrier-Route Letters	299.481	628.689	329.208	109.9%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	179.051	-141.845	-44.2%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	48.938	-38.769	-44.2%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	70.985	4.610	6.9%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	33,596.301	-1,107.444	-3.2%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,490.955	468.910	5.8%
Nonautomated Basic Letters	586.377	1,049.725	463.349	79.0%
Nonautomated Basic Nonletters	431.007	507.233	76.227	17.7%
Nonautomated Presort Letters	581.072	504.256	-76.816	-13.2%
Nonautomated Presort Nonletters	336.537	302.883	-33.654	-10.0%
Automated Basic Letters	592.807	630.769	37.963	6.4%
Automated Basic Flats	46.060	48.254	2.194	4.8%
Automated 3-Digit Letters	1,624.239	1,502.092	-122.148	-7.5%
Automated 5-Digit Letters	968.666	1,043.619	74.952	7.7%
Automated 3/5-Digit Flats	1,193.906	1,263.957	70.052	5.9%
Standard Regular - Second Ounce	0.000	0.000	0.000	---
Standard Regular - Third Ounce	0.000	0.000	0.000	---
Standard Regular - Ounces Above Third	1,511.516	1,488.195	-23.321	-1.5%
Fees, Residual Shape, and Adjustments	149.859	149.972	0.113	0.1%
Standard Regular Enhanced Carrier Route	4,304.005	4,409.877	105.872	2.5%
Automated	323.367	340.239	16.872	5.2%
Basic Letters	520.497	545.493	24.995	4.8%
Basic Nonletters	1,229.214	1,287.547	58.333	4.7%
High-Density Letters	42.999	45.652	2.653	6.2%
High-Density Nonletters	76.576	80.722	4.147	5.4%
Saturation Letters	309.924	331.271	21.347	6.9%
Saturation Nonletters	532.594	565.957	33.363	6.3%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	---
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,171.509	-55.838	-4.5%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,900.831	574.782	4.7%

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Revenue (Million Dollars) - continued		(Revised 2/12/98)		
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
Total Standard A	13,878.891	14,453.672	574.782	4.1%
Total Standard B	1,712.281	1,712.281	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	5,198.586	5,198.586	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	---
Total Domestic Mail	57,619.284	57,086.622	-532.662	-0.9%
<i>International Mail</i>	1,643.844	1,643.844	0.000	0.0%
<i>Special Services</i>	2,049.606	2,049.606	0.000	0.0%
<i>Other Income</i>	217.242	217.242	0.000	0.0%
Attributable Revenue	61,529.976	60,997.314	-532.662	-0.9%
<i>Continuing Appropriations</i>	67.498	67.498	0.000	0.0%
<i>Investment Income</i>	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,119.183	-532.662	-0.9%

Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Costs (Million Dollars)		(Revised 2/12/98)		
			Alternate Proposal Compared to Proposed R97-1	
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	12,758.664	12,301.599	-457.065	-3.6%
First-Class Letters and Flats - Presort	4,047.084	4,127.339	80.255	2.0%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
<i>Total First Class</i>	17,398.132	17,025.604	-372.528	-2.1%
<i>Total Periodical</i>	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,111.572	-80.102	-1.5%
Standard Regular Enhanced Carrier Route	1,885.248	1,799.479	-85.769	-4.5%
Standard Regular and Enhanced Carrier Route	7,076.922	6,911.051	-165.871	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
<i>Total Standard A</i>	8,308.850	8,142.979	-165.871	-2.0%
<i>Total Standard B</i>	1,405.285	1,405.285	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	2,677.289	2,677.289	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	31.757	31.757	0.000	0.0%
<i>Total Domestic Mail</i>	31,824.787	31,286.388	-538.399	-1.7%
<i>International Mail</i>	1,206.030	1,206.030	0.000	0.0%
<i>Special Services</i>	1,284.854	1,284.854	0.000	0.0%
<i>Other Variable Costs</i>	170.322	170.322	0.000	0.0%
<i>Attributable Costs</i>	34,485.993	33,947.594	-538.399	-1.6%
<i>Total Other Costs</i>	26,683.278	26,683.278	0.000	0.0%
<i>Prior Years Loss Recovery</i>	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,077.805	-538.399	-0.9%

	Volume Variable Cost per Piece (Dollars per Piece)		
	Proposed R97-1	Alternate Proposal	
First-Class Letters and Flats - Single Piec	0.2340	0.2340	Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are is set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)). Note: In the alternate proposal, First-Class workshared BY98 volume variable costs as calculated by Patelunas may be adjusted to continue the historical CRA cost decline in mail processing and to include forwarding cost savings. In this particular scenario, the adjustments are: Mail Processing Cost -0.00196 Forwarding Cost -0.00262
First-Class Letters and Flats - Presort	0.0986	0.0941	
First-Class Cards - Single Piece	0.1413	0.1413	
First-Class Cards - Private Presort	0.0650	0.0650	
Standard Regular	0.1380	0.1380	
Standard Regular Enhanced Carrier Rout	0.0657	0.0657	

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Discounts (Dollars per Piece)		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1	
			Difference	Percent Difference
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.030	0.010	50.0%
Automated Basic Letters	0.055	0.069	0.014	25.5%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.086	0.021	32.3%
Automated 5-Digit Letters	0.081	0.102	0.021	25.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.105	0.021	25.0%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.012	
Standard Regular and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.004	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.251	0.004	1.6%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.026	-0.012	-31.6%
Automated Basic Letters	0.058	0.046	-0.012	-20.7%
Automated 3-Digit Letters	0.069	0.057	-0.012	-17.4%
Automated 5-Digit Letters	0.087	0.075	-0.012	-13.8%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.304	0.004	1.3%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.048	-0.012	-20.0%
Automated Basic Flats	0.057	0.045	-0.012	-21.1%
Automated 3/5-Digit Flats	0.093	0.081	-0.012	-12.9%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.180	0.016	9.8%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.180	0.016	9.8%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%

Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Revenue per Piece (Dollars per Piece)			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3006	-0.010
Automated Basic Letters	0.2750	0.2610	-0.014
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2440	-0.021
Automated 5-Digit Letters	0.2490	0.2280	-0.021
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2250	-0.021
First Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.1200	-0.110
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.1200	-0.110
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2510	0.004
Nonautomated Basic Nonletters	0.2352	0.2383	0.003
Nonautomated Presort Letters	0.2002	0.2155	0.015
Nonautomated Presort Nonletters	0.1621	0.1729	0.011
Automated Basic Letters	0.1890	0.2050	0.016
Automated Basic Flats	0.1776	0.1893	0.012
Automated 3-Digit Letters	0.1703	0.1856	0.015
Automated 5-Digit Letters	0.1523	0.1676	0.015
Automated 3/5-Digit Flats	0.1304	0.1405	0.010
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1730	0.016
Basic Letters	0.1640	0.1800	0.016
Basic Nonletters	0.1153	0.1266	0.011
High-Density Letters	0.1094	0.1217	0.012
High-Density Nonletters	0.0664	0.0733	0.007
Saturation Letters	0.1004	0.1124	0.012
Saturation Nonletters	0.0653	0.0727	0.007
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000

(Revised 2/12/98)

Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%

Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Fixed Weight Price Indices					
	Base Period		Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
	Volumes	Weights			
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.2899	-0.0164
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3355	-0.0106
Automated Basic Letters	656.213	0.3085	0.3159	0.2981	-0.0178
Automated Basic Flats	10.180	0.7693	0.7236	0.6945	-0.0291
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2702	-0.0201
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2717	-0.0149
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7063	-0.0359
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3121	-0.0088
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2229	0.0069
Standard Regular Flats		0.2880	0.3043	0.3160	0.0117
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2493	0.0034
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3933	0.0046
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2242	0.0046
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3697	0.0082
Automated Basic Letters	528.261	0.2105	0.2069	0.2192	0.0123
Automated Basic Flats	52.064	0.3366	0.3147	0.3315	0.0167
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2265	0.0071
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.2056	0.0079
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2840	0.0140
Standard ECR Letters		0.1332	0.1423	0.1537	0.0114
Standard ECR Flats		0.1562	0.1551	0.1677	0.0126
Automated	302.099	0.1363	0.1458	0.1575	0.0117
Basic Letters	1,866.041	0.1377	0.1509	0.1625	0.0117
Basic Nonletters	2,341.886	0.1746	0.1734	0.1868	0.0134
High-Density Letters	61.473	0.1292	0.1263	0.1372	0.0109
High-Density Nonletters	248.190	0.1587	0.1579	0.1708	0.0129
Saturation Letters	654.207	0.1193	0.1176	0.1283	0.0106
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1452	0.0116
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0753	0.0153

(Revised 2/12/98)

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Fixed Weight Price Indices continued					
	Base Period	Base Period	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
	Volumes	Weights			
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3257	-0.0157
Automated Basic Letters			0.2823	0.2638	-0.0185
Automated Basic Flats			0.7005	0.6673	-0.0332
Automated 3-Digit Letters			0.2687	0.2437	-0.0250
Automated 5-Digit Letters			0.2555	0.2302	-0.0253
Automated 3/5-Digit Flats			0.7302	0.6932	-0.0370
Automated Carrier-Route Letters			0.2559	0.2303	-0.0256
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2493	0.0034
Nonautomated Basic Nonletters			0.3887	0.3933	0.0046
Nonautomated Presort Letters			0.2017	0.2147	0.0130
Nonautomated Presort Nonletters			0.3253	0.3439	0.0186
Automated Basic Letters			0.1878	0.2009	0.0131
Automated Basic Flats			0.2978	0.3147	0.0168
Automated 3-Digit Letters			0.1721	0.1848	0.0126
Automated 5-Digit Letters			0.1517	0.1638	0.0121
Automated 3/5-Digit Flats			0.2304	0.2453	0.0149
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1575	0.0117
Basic Letters			0.1509	0.1625	0.0117
Basic Nonletters			0.1734	0.1868	0.0134
High-Density Letters			0.1263	0.1372	0.0109
High-Density Nonletters			0.1579	0.1708	0.0129
Saturation Letters			0.1176	0.1283	0.0106
Saturation Nonletters			0.1335	0.1452	0.0116

(Revised 2/12/98)

**Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase**

Fixed Weight Price Indices continued					
	Base Period		Alternate Proposal		Difference
	Volumes	Weights	Proposed R97-1	Alternate Proposal	
User Cost					
First-Class Letters Single Piece			0.0000	0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.0046	0.0098	0.0051
Automated Basic Letters			0.0336	0.0343	0.0007
Automated Basic Flats			0.0231	0.0272	0.0041
Automated 3-Digit Letters			0.0216	0.0265	0.0049
Automated 5-Digit Letters			0.0311	0.0414	0.0104
Automated 3/5-Digit Flats			0.0119	0.0130	0.0011
Automated Carrier-Route Letters			0.0650	0.0818	0.0168
First-Class Stamped Cards			0.0000	0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000	0.0000
Nonautomated Presort			0.0072	0.0140	0.0068
Automated Basic			0.0041	0.0066	0.0025
Automated 3-Digit			0.0217	0.0294	0.0078
Automated 5-Digit			0.0240	0.0299	0.0059
Automated Carrier-Route			0.0359	0.0489	0.0130
Standard Single Piece			0.0000	0.0000	0.0000
Standard Regular					
Nonautomated Basic Letters			0.0000	0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0095	-0.0084
Nonautomated Presort Nonletters			0.0361	0.0258	-0.0103
Automated Basic Letters			0.0191	0.0183	-0.0008
Automated Basic Flats			0.0169	0.0168	-0.0001
Automated 3-Digit Letters			0.0472	0.0417	-0.0055
Automated 5-Digit Letters			0.0460	0.0418	-0.0042
Automated 3/5-Digit Flats			0.0397	0.0388	-0.0009
Standard Regular Enhanced Carrier Route					
Automated			0.0000	0.0000	0.0000
Basic Letters			0.0000	0.0000	0.0000
Basic Nonletters			0.0000	0.0000	0.0000
High-Density Letters			0.0000	0.0000	0.0000
High-Density Nonletters			0.0000	0.0000	0.0000
Saturation Letters			0.0000	0.0000	0.0000
Saturation Nonletters			0.0000	0.0000	0.0000

(Revised 2/12/98)

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

Key Rate to Revenue per Piece Adjustment					Alternate Proposal Compared to Proposed R97-1
	Base Period	Base Period	Proposed R97-1	Alternate Proposal	
	Volumes	Weights			
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

(Revised 2/12/98)

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

**Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase**

Key Rate to Fixed Weight Index Adjustment			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

(Revised 2/12/98)

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

**Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase**

(Revised 2/12/98)

Volume and Share Adjustments				
	<u>Volume Adjustment</u>	Test Year 1998 After Rates Tolley Proposed R97- Volume Volume 1 Unadjusted		Alternate Proposal Unadjusted Volume
		<u>Forecast</u>	<u>Volume</u>	
First-Class Letters Single Piece	0.47%	54,413.387	54,157.511	52,211.610
First-Class Letters Workshared	2.67%	41,033.182	39,967.926	42,743.626
First-Class Single Piece Cards	-1.04%	2,476.656	2,502.698	2,502.698
First-Class Presort Cards	3.58%	2,463.386	2,378.177	2,441.782
Standard Single Piece	1.21%	161.574	159.641	159.641
Standard Regular Letters	4.63%	24,306.837	23,231.926	22,859.784
Standard Regular Flats	2.57%	13,320.717	12,986.521	12,800.126
Standard ECR Letters	2.44%	8,712.800	8,505.278	8,121.390
Standard ECR Flats	5.33%	19,973.382	18,962.447	18,096.775
	<u>Share Adjustment</u>	Test Year 1998 After Rates Tolley Proposed R97- Share Share 1 Unadjusted		Alternate Proposal Unadjusted Share
		<u>Forecast</u>	<u>Share</u>	
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	10.93%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	50.51%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.39%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	6.43%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	9.22%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	13.24%
Automated Basic Letters	4.31%	12.90%	12.37%	12.33%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	31.50%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.64%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.58%

Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).

Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Volume Forecasts				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>First-Class Letters and Flats - Single Piece</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
<i>Cross Elasticities - Sum</i>				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999701
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.962178
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
<i>Cross Volume Effects Lagged Four Quarters</i>				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
<i>Declining Worksharing User Costs</i>				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
<u>First-Class Letters Workshared</u>				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.021462
<i>Cross Elasticities - Sum</i>				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.999449
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.053577
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
<i>Declining Worksharing User Costs</i>				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
<u>First-Class Private Single Piece Cards</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
First-Class Presort Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209.508	2,209.508	2,209.508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
Standard Single Piece				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
Standard Regular				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.006029
Flats		0.260348	0.992752	0.978503
<i>Cross Elasticities - Sum</i>				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
Standard Regular Enhanced Carrier Route				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.937832
Flats		0.141174	1.026017	0.979177
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
Personal Consumption Expenditures	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Share Forecasts			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Nonautomated Presort</u>			
Unadjusted Share	15.57%	11.79%	10.93%
Share Adjusted for TYAR		11.83%	10.97%
Share Adjusted to Sum to Unity		11.83%	10.44%
Discount (Dollars per Piece)	0.025	0.020	0.030
Mu	0.0709	0.0765	0.0893
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0022
Average User Cost		0.0046	0.0098
<u>First-Class Automated Basic Letters</u>			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.61%
Share Adjusted to Sum to Unity		10.50%	10.09%
Discount (Dollars per Piece)	0.059	0.055	0.069
Mu	0.0311	0.0339	0.0343
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0036
Average User Cost		0.0336	0.0343
<u>First-Class Automated Basic Flats</u>			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.18%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
<u>First-Class Automated 3-Digit Letters</u>			
Unadjusted Share	48.30%	48.90%	50.51%
Share Adjusted for TYAR		50.88%	52.56%
Share Adjusted to Sum to Unity		50.88%	50.00%
Discount (Dollars per Piece)	0.066	0.065	0.086
Mu	0.0258	0.0214	0.0253
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0300
Average User Cost		0.0216	0.0265
<u>First-Class Automated 5-Digit Letters</u>			
Unadjusted Share	21.89%	22.02%	22.39%
Share Adjusted for TYAR		23.12%	23.51%
Share Adjusted to Sum to Unity		23.12%	22.36%
Discount (Dollars per Piece)	0.082	0.081	0.102
Mu	0.0352	0.0316	0.0418
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0136
Average User Cost		0.0311	0.0414
<u>First-Class Automated 3/5-Digit Flats</u>			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.56%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
First-Class Automated Carrier-Route Letters			
Unadjusted Share	3.37%	2.85%	6.43%
Share Adjusted for TYAR		2.97%	6.69%
Share Adjusted to Sum to Unity		2.97%	6.37%
Discount (Dollars per Piece)	0.090	0.084	0.105
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0015
Average User Cost		0.0650	0.0818
First-Class Nonautomated Presort Cards			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
First-Class Automated Basic Cards			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
First-Class Automated 3-Digit Cards			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
First-Class Automated 5-Digit Cards			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
First-Class Automated Carrier-Route Cards			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

(Revised 2/12/98)

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Nonautomated Presort Letters</u>			
Unadjusted Share	15.17%	11.25%	9.22%
Share Adjusted for TYAR		11.94%	9.78%
Discount (Dollars per Piece)	0.047	0.038	0.026
Mu	0.1119	0.1060	0.0993
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0015
Average User Cost		0.0179	0.0095
<u>Standard Regular Nonautomated Presort Nonletters</u>			
Unadjusted Share	19.86%	15.47%	13.24%
Share Adjusted for TYAR		15.58%	13.34%
Discount (Dollars per Piece)	0.081	0.060	0.048
Mu	0.1330	0.1190	0.1112
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0029
Average User Cost		0.0361	0.0258
<u>Standard Regular Automated Basic Letters</u>			
Unadjusted Share	14.85%	12.37%	12.33%
Share Adjusted for TYAR		12.90%	12.86%
Discount (Dollars per Piece)	0.073	0.058	0.046
Mu	0.0197	0.0190	0.0183
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0034
Average User Cost		0.0191	0.0183
<u>Standard Regular Automated Basic Flats</u>			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.94%
Discount (Dollars per Piece)	0.029	0.057	0.045
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0005
Average User Cost		0.0169	0.0168
<u>Standard Regular Automated 3-Digit Letters</u>			
Unadjusted Share	46.54%	36.53%	31.50%
Share Adjusted for TYAR		39.23%	33.83%
Discount (Dollars per Piece)	0.081	0.069	0.057
Mu	0.0468	0.0492	0.0463
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0048
Average User Cost		0.0472	0.0417
<u>Standard Regular Automated 5-Digit Letters</u>			
Unadjusted Share	14.29%	26.76%	26.64%
Share Adjusted for TYAR		26.16%	26.04%
Discount (Dollars per Piece)	0.101	0.087	0.075
Mu	0.0566	0.0462	0.0423
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0088
Average User Cost		0.0460	0.0418
<u>Standard Regular Automated 3/5-Digit Flats</u>			
Unadjusted Share	68.84%	68.78%	68.58%
Share Adjusted for TYAR		68.71%	68.51%
Discount (Dollars per Piece)	0.117	0.093	0.081
Mu	0.0422	0.0397	0.0389
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0290
Average User Cost		0.0397	0.0388

**Cost Coverage Model
 First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
 with Standard (A) Commercial Cost Coverage Increase**

(Revised 2/12/98)

Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>			
Standard Regular ECR Automated		23.64%	23.64%
Standard Regular ECR Automated Basic Letters		36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters		53.37%	53.37%
Standard Regular ECR High Density Letters		4.51%	4.51%
Standard Regular ECR High-Density Nonletters		5.78%	5.78%
Standard Regular ECR Saturation Letters		35.42%	35.42%
Standard Regular ECR Saturation Nonletters		40.85%	40.85%
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7			

ERRATA TO TESTIMONY OF JAMES A. CLIFTON
ON BEHALF OF
AMERICAN BANKERS ASSOCIATION
EDISTON ELECTRIC INSTITUTE
NATIONAL ASSOCIATION OF PRESORT MAILERS
ABA/EEI/NAPM-T-1

<u>Page</u>	<u>Line</u>	<u>Change</u>	<u>To</u>
I	3	274%	276%
i	22	6.7	6.8
iii	III.F.	6.7	6.8
38	9	over	about
43	19	\$139	\$117
45	14	285.6%	287.1%
45	15	274%	276%
46	4	197.06%	197.33%
46	5	269%	271%
46	12	\$17.9	\$41.4