

USPS-ST-4

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2011

Docket No. N2012-1

SUPPLEMENTAL TESTIMONY OF
MICHAEL D. BRADLEY
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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3 **PURPOSE AND SCOPE**
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6 The Postal Service revised its determination of which facilities would be
7 active and inactive in the realigned network. This revised determination
8 necessitates an associated revision in the estimated cost changes in a number of
9 areas. The purpose of this supplemental testimony is to present revised
10 estimates of the changes in cost that are caused by the proposed change in
11 service standards.

12 I present revisions in the areas of mail processing labor cost and
13 transportation cost, as well as the revised overall change in cost.

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ASSOCIATED LIBRARY REFERENCES

4

5 I am sponsoring the following Library References which are associated
6 with this testimony:

7

8 USPS-LR- N2012-1/92 Revised Mail Processing Labor Cost Savings

9

10

11 USPS-LR- N2012-1/93 Revised Highway Transportation Cost Changes

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1
2 **I. REVISED MAIL PROCESSING LABOR COST CHANGES ARISING**
3 **FROM A CHANGE IN SERVICE STANDARDS**
4

5 The Postal Service's revision of its realigned network structure
6 necessitates revisiting the estimated cost savings from the proposed new service
7 standards and the resulting network realignment. The Postal Service has
8 determined that it will close fewer facilities than it originally anticipated and that
9 change will potentially influence the various areas of mail processing labor cost
10 savings.¹ This part of my testimony describes how each of the cost savings
11 areas is influenced by the change in facility designation and presents the revised
12 cost changes.

13 **A. Workload Transfer Cost Change**

14 As explained in my direct testimony, workload transfer cost savings arise
15 from the reduction in institutional cost caused by the consolidation of operations.²
16 It depends upon the number of sites identified as inactive and is thus affected by
17 the revision of network structure. The revised workload transfer cost savings are
18 calculated by using the revised list of inactive MODS facilities to compute, using
19 the same methodology as in my direct testimony, the institutional costs in the
20 relevant mail proceeding operations for the new list of inactive sites. The revised
21 workload transfer cost savings are presented in Table 1. As expected, they are
22 smaller than the previously estimated workload transfer cost savings.

¹ The revised facility determinations are presented in USPS-LR-N2012-1/82.

² See "Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service," Docket No. N2012-1, USPS-T-10, at 5.

Cost Pool	PRC Costs	PRC Variability	Active Sites		Inactive Sites		Realigned Network Cost	Workload Transfer Cost Saving
			Institutional Cost	Volume Variable Cost	Institutional Cost	Volume Variable Cost		
			BCS/DBCS	\$1,843,600	0.9942	\$8,065		
OCR	\$9,574	0.9937	\$49	\$7,689	\$12	\$1,825	\$9,562	\$12
AFSM100	\$662,558	0.9874	\$6,610	\$518,017	\$1,738	\$136,193	\$660,820	\$1,738
FSM 1000	\$45,860	0.9798	\$456	\$22,100	\$471	\$22,834	\$45,390	\$471
Mechanized Parcels	\$7,079	0.9619	\$166	\$4,182	\$104	\$2,627	\$6,975	\$104
SPBS - Non Priority	\$285,340	0.9773	\$5,201	\$223,932	\$1,276	\$54,930	\$284,064	\$1,276
SPBS - Priority	\$270,033	0.9832	\$3,627	\$212,271	\$909	\$53,226	\$269,124	\$909
Mechanical Sort - Sack Outside	\$30,546	0.9290	\$1,713	\$22,414	\$456	\$5,963	\$30,090	\$456
Mechanical Tray Sorter / Robotics	\$276,061	0.9556	\$10,443	\$224,756	\$1,814	\$39,048	\$274,246	\$1,814
Manual Flats	\$194,531	0.9869	\$1,929	\$145,324	\$619	\$46,659	\$193,912	\$619
Manual Letters	\$483,827	0.9833	\$6,477	\$381,358	\$1,603	\$94,388	\$482,224	\$1,603
Manual Parcels	\$35,971	0.9525	\$1,164	\$23,350	\$544	\$10,912	\$35,427	\$544
Manual Priority	\$246,013	0.9622	\$6,671	\$169,819	\$2,628	\$66,894	\$243,385	\$2,628
Cancellation	\$276,200	0.9837	\$3,529	\$212,952	\$973	\$58,745	\$275,226	\$973
Dispatch	\$153,265	0.9812	\$2,245	\$117,175	\$636	\$33,208	\$152,629	\$636
Flats Preparation	\$83,581	0.9978	\$126	\$57,367	\$57	\$26,030	\$83,523	\$57
Mail Preparation - metered	\$21,605	0.9716	\$502	\$17,175	\$112	\$3,816	\$21,494	\$112
Opening Unit - BBM	\$101,762	0.9809	\$1,412	\$72,494	\$532	\$27,324	\$101,230	\$532
Opening Unit - Preferred Mail	\$304,410	0.9784	\$4,754	\$215,351	\$1,821	\$82,484	\$302,589	\$1,821
Opening - Manual transport	\$75,496	0.9616	\$2,533	\$63,437	\$366	\$9,160	\$75,131	\$366
Platform	\$1,336,239	0.9200	\$82,076	\$943,876	\$24,823	\$285,463	\$1,311,416	\$24,823
Pouching Operations	\$60,259	0.9656	\$1,311	\$36,806	\$762	\$21,380	\$59,497	\$762
Presort	\$77,934	0.9727	\$1,774	\$63,206	\$354	\$12,600	\$77,580	\$354
Manual Sort - Sack Outside	\$56,584	0.9648	\$1,480	\$40,575	\$511	\$14,017	\$56,072	\$511
Air Contract DCS and Incoming/SWYB	\$62,743	0.9891	\$519	\$47,125	\$165	\$14,934	\$62,578	\$165
Business Reply / Postage Due	\$21,404	0.9587	\$696	\$16,158	\$188	\$4,362	\$21,216	\$188
Registry	\$92,191	0.6135	\$26,540	\$42,127	\$9,092	\$14,432	\$83,099	\$9,092
Damaged Parcel Rewrap	\$16,182	0.9643	\$501	\$13,546	\$76	\$2,058	\$16,105	\$76
Empty Equipment	\$31,605	0.9948	\$123	\$23,537	\$41	\$7,903	\$31,563	\$41
Miscellaneous	\$88,042	0.9568	\$2,926	\$64,804	\$877	\$19,434	\$87,165	\$877
Mail Processing Support	\$71,611	0.8571	\$8,049	\$48,278	\$2,184	\$13,100	\$69,427	\$2,184
TOTAL	\$7,322,105		\$193,669	\$5,433,663	\$58,373	\$1,636,400	\$7,263,732	\$58,373

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Source: Library Reference USPS-LR-N2012-1/92, Dollar Figures in Thousands of Dollars

1 **B. Plant Management Cost Change**

2 Plant management cost savings arise when a plant is closed. A reduction
3 in the number of plant closings will reduce the plant management cost savings.
4 As explained in my direct testimony, plant management cost savings are found
5 by identifying the plant management (LDC 80) hours at inactive sites.³ The
6 revised plant management cost savings will be based upon the LDC80 hours for
7 the revised set of inactive sites. The resulting cost savings are presented in
8 Table 2.

9

Table 2
Revised Plant Management Cost Savings

LDC 80 Hours at Inactive Sites	291,392
Wage	\$51.97
Cost Saving	\$15,143,542

10 Source: Library Reference USPS-LR-N2012-1/92.

11

12 **C. In-Plant Support Cost Change**

13 In his direct testimony, witness Neri identified the reduction in in-plant
14 support that was associated with the proposed network realignment.⁴ In light of
15 the revised list of inactive facilities, witness Neri revisited his analysis and has

³ Id. at 20.

⁴ See, “Direct Testimony Frank Neri on Behalf of the United States Postal Service,” Docket No. N2012-1, USPS-T-4, at Section IX.

1 determined a revised reduction in in-plant support hours.⁵ That revised value is
 2 21.5 percent, which is smaller than the previous value of 29.65 percent. This
 3 means that the cost savings arising from a reduced need for in-plant support are
 4 smaller in the revised network. The revised in-plant support cost savings are
 5 presented in Table 3.

6

Table 3
 Revised In-Plant Support Cost Savings

In-Plant Support Hours in All Facilities	3,387,698
% Reduction in In-Plant Support	21.50%
Reduction in Hours	728,355
Wage	\$48.48
Reduction in Cost	\$35,313,426

Source: Library Reference USPS-LR-N2012-1/92.

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D. Productivity Gain Cost Change

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Witness Neri has determined that because (1) he originally took a
 11 conservative approach to estimating productivity gains associated with the

⁵ See, "Supplemental Testimony of Frank Neri on Behalf of the United States Postal Service," Docket No. N2012-1, USPS-ST-5, at 1.

1 proposed change in service standard and (2) most of the productivity gains flow
2 from operational changes, not consolidation, then even with a reduced number of
3 consolidated sites, his original productivity estimates are still applicable in the
4 revised network.⁶ This means that the revised cost savings estimate will
5 continue to rely upon the same productivities I relied upon to calculate the cost
6 savings from productivity improvement in my direct testimony. However, the
7 base dollars to which those productivity gains are applied will change. Because
8 there are smaller gains from workload transfer in the revised network structure,
9 fewer hours are saved at inactive sites and more hours, and thus dollars, will be
10 required at active sites.

11 This means that the productivity gains estimated by witness Neri will be
12 multiplied by that higher number of base hours at active sites. Consequently, the
13 cost savings from productivity gains will be slightly higher in the revised realigned
14 network than they were in original realigned network. Table 4 presents the
15 revised cost savings from productivity.

⁶ See, "Supplemental Testimony of Frank Neri on Behalf of the United States Postal Service," Docket No. N2012-1,USPS-ST-5, at 1.

Cost Pool	Realigned Network Cost Before Productivity Gain	Productivity Induced Cost Saving %	Realigned Network Cost After Productivity Gain	Productivity Induced Cost Saving
BCS/DBCS	\$1,840,973	18.0%	\$1,508,994	\$331,979
OCR	\$9,562	18.0%	\$7,838	\$1,724
AFSM100	\$660,820	13.0%	\$574,626	\$86,194
FSM 1000	\$45,390	13.0%	\$39,469	\$5,920
Mechanized Parcels	\$6,975	7.4%	\$6,458	\$517
SPBS - Non Priority	\$284,064	7.4%	\$263,022	\$21,042
SPBS - Priority	\$269,124	7.4%	\$249,189	\$19,935
Mechanical Sort - Sack Outside	\$30,090	13.0%	\$26,166	\$3,925
Mechanical Tray Sorter / Robotics	\$274,246	13.0%	\$238,475	\$35,771
Manual Flats	\$193,912	2.9%	\$188,264	\$5,648
Manual Letters	\$482,224	2.9%	\$468,178	\$14,045
Manual Parcels	\$35,427	2.9%	\$34,395	\$1,032
Manual Priority	\$243,385	2.9%	\$236,296	\$7,089
Cancellation	\$275,226	13.0%	\$239,327	\$35,899
Dispatch	\$152,629	16.7%	\$127,191	\$25,438
Flats Preparation	\$83,523	0.0%	\$83,523	\$0
Mail Preparation - metered	\$21,494	0.0%	\$21,494	\$0
Opening Unit - BBM	\$101,230	13.0%	\$88,026	\$13,204
Opening Unit - Preferred Mail	\$302,589	13.0%	\$263,121	\$39,468
Opening - Manual transport	\$75,131	13.0%	\$65,331	\$9,800
Platform	\$1,311,416	16.7%	\$1,092,847	\$218,569
Pouching Operations	\$59,497	20.0%	\$47,598	\$11,899
Presort	\$77,580	20.0%	\$62,064	\$15,516
Manual Sort - Sack Outside	\$56,072	20.0%	\$44,858	\$11,214
Air Contract DCS and Incoming/SWYB	\$62,578	0.0%	\$62,578	\$0
Business Reply / Postage Due	\$21,216	0.0%	\$21,216	\$0
Registry	\$83,099	33.3%	\$55,399	\$27,700
Damaged Parcel Rewrap	\$16,105	0.0%	\$16,105	\$0
Empty Equipment	\$31,563	9.1%	\$28,694	\$2,869
Miscellaneous	\$87,165	9.1%	\$79,241	\$7,924
Mail Processing Support	\$69,427	20.0%	\$55,541	\$13,885
Total	\$7,263,732		\$6,295,524	\$968,207

Source: Library Reference USPS-LR-N2012-1/92. Dollar Figures in Thousands of Dollars

1 **E. Supervisor Cost Change**

2 The reduction in supervisor cost is dependent upon the reduction in direct
3 labor hours. As explained in my direct testimony, the Postal Service maintains a
4 fixed ratio between supervisory hours and direct labor hours.⁷ Thus, to the
5 extent that the revision in network structure leads to a reduction in direct labor
6 cost savings, it will also lead to a reduction in supervisor cost savings.

7 Moreover, in my direct testimony, I presented empirical evidence
8 supporting this approach. I presented the ratios of supervisory hours to direct
9 labor hours at both active and inactive facilities, showing that the ratios were
10 virtually identical.⁸ I repeated that exercise for the revised list of facilities, and as
11 Table 5 shows, the ratios for the revised facility designations again correspond.

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Table 5
Ratio of LDC 10 Hours to LDC 11-18 Hours

Type of Facility	Ratio
Revised Active Facilities	6.34%
Revised Inactive Facilities	6.36%
All Facilities	6.35%

14 *Source: Library Reference USPS-LR-N2012-1/92*

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⁷ See “Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service,” Docket No. N2012-1, USPS-T-10, at 19.

⁸ Id.

1 The revised supervisor cost savings are presented in the next table.
 2 Because the hours saved in LDCs 11-18 are reduced in the revised network, the
 3 supervisor cost savings are also reduced in the revised network.

Table 6

Revised Supervisor Cost Savings In Thousands of Dollars	
Labor Cost Change in LDCs 11-18	\$1,026,580
Supervisor Labor Cost Change	\$65,145

Source: Library Reference USPS-LR-N2012-1/92

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6 **F. Premium Pay Reduction Cost Change**

7 Premium pay cost savings arise in the realigned network because the
 8 Postal Service will be able to reduce the percentage of hours that are subject to
 9 the nighttime premium. Its ability to shift hours from nighttime to daytime is
 10 associated with the new operating windows arising from the service standard
 11 change and not from facility consolidation. Premium pay cost savings are thus
 12 not directly related to the revision in the network structure.

13 However, as pointed out in my direct testimony, the change in the
 14 proportion of hours subject to premium pay should be applied to the hours that
 15 will be required in the realigned network.⁹ To the extent that a reduction in the
 16 number of inactive facilities means that more hours will be needed in the
 17 realigned network, the base hours to which the premium pay reduction is applied

⁹ *Id.* at 23

1 will increase. This means that the premium pay cost savings will be slightly
 2 larger in the revised network. The revised cost savings from premium pay
 3 reduction are presented in Table 7.

4

Table 7

Revised Change in Premium Pay Due to the Change in Service Standard

LDC	Revised Projected Hours By LDC Under the New Service Standard	Night Differential Cost at Current Proportion	Night Differential Cost at New Proportion	Cost Saving
10	9,951,879	\$10,444,652	\$6,339,821	\$4,104,831
11	34,949,850	\$45,222,176	\$25,724,681	\$19,497,496
12	14,422,467	\$16,003,012	\$10,486,645	\$5,516,368
13	18,686,173	\$17,684,456	\$8,277,920	\$9,406,536
14	22,507,646	\$29,884,926	\$16,501,156	\$13,383,770
17	54,062,261	\$53,825,397	\$34,094,931	\$19,730,465
18	9,815,558	\$8,544,982	\$8,190,556	\$354,427
Totals	164,395,834	\$181,609,601	\$109,615,709	\$71,993,892

Source: Library Reference USPS-LR-N2012-1/92

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G. Indirect Cost Change

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Indirect costs are calculated as a fixed percentage of direct costs. Thus,

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to the degree that a revision in the network structure leads to lower cost savings

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for direct labor costs, it will also lead to lower cost savings for indirect costs. The

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revised indirect labor cost savings are \$136.3 million, which is less than the

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indirect cost savings in the original realigned network.

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2 **II. REVISION OF TRANSPORTATION COST CHANGES ARISING FROM**
3 **THE CHANGE IN SERVICE STANDARDS**
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5 In my direct testimony in this docket, I described cost changes in four
6 areas of transportation: air transportation, plant-to-plant highway contract
7 transportation, plant-to-post office highway contract transportation, and Postal
8 Vehicle Service (PVS) transportation.¹⁰

9 The revised determination of which sites will be active and which sites will
10 be inactive in the realigned network generated revisions in three of these four
11 transportation cost areas. The change in facility designations had no impact on
12 the additional air transportation costs necessitated by the change in service
13 standards. In this part of my supplemental testimony, I describe and present the
14 revisions in highway transportation cost associated with the changes in facility
15 designation.

16

17 **A. Revision in Plant-to-Plant Highway Transportation Cost Saving**

18 Witness Martin originally estimated that, through better utilization, the
19 Postal Service will be able to reduce its required capacity in the plant-to-plant
20 portion of the network by 24.4 percent.¹¹ In her supplemental testimony, witness

¹⁰ See “Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service,” Docket No. N2012-1,USPS-T-10, at Section III.

¹¹ See “Direct Testimony Cheryl D. Martin on Behalf of the United States Postal Service,” Docket No. N2012-1,USPS-T-6, at Section III.

1 Martin now indicates that her estimate of the reduction in transportation capacity
2 is 12.8%.¹²

3 Table 8 contains the revised cost savings in the plant-to-plant portion of
4 highway contract transportation. As witness Martin estimates a smaller reduction
5 in capacity in the revised network, the plant-to-plant highway transportation cost
6 savings are also smaller.

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Table 8

Revised Cost Savings in Plant-to-Plant Portion of HCR Transportation

Contract Type	FY10 Accrued Cost	Capacity Reduction	Capacity Variability	Savings
INTER AREA	\$574,497,637	12.8%	91.3%	\$67,307,607
INTER CLUSTER	\$187,231,606	12.8%	90.4%	\$21,719,645
INTER P&DC	\$103,481,909	12.8%	84.1%	\$11,167,747
TOTAL	\$865,211,153			\$100,194,999

9 *Source: Library Reference USPS-LR-N2012-1/93*

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B. Revision in Cost Changes in the Plant-to-Post Office Highway Network

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As explained in my direct testimony, there are two potential cost changes

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in the plant-to-post office network, a change in the amount of capacity required to

¹² See "Supplemental Testimony Cheryl D. Martin on Behalf of the United States Postal Service," Docket No. N2012-1, USPS-ST-2, at 4.

1 transport the mail and a conversion of Postal Vehicle Service sites to highway
2 contract sites.¹³

3 Previously, the Postal Service has identified 40 PVS sites that were to
4 close when their associated P&DC were closed and indicated that transportation
5 responsibility will be transferred to Highway Contract Routes (HCR) instead of
6 other PVS transportation.¹⁴ Now, in the revised network, the Postal Service has
7 determined that it plans to close 32 PVS sites.¹⁵

8 The following table presents the labor cost that would be saved by closing
9 the 32 PVS sites. These cost savings were calculated using the same
10 methodology presented and explained in my direct testimony. The table shows
11 that the additional HCR costs will be \$37.8 million, leading to a cost saving of
12 \$60.3 million.

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¹³ See "Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service," Docket No. N2012-1,USPS-T-10, at 33.

¹⁴ See, "Direct Testimony Cheryl D. Martin on Behalf of the United States Postal Service," Docket No. N2012-1,USPS-T-6, at Section II B.

¹⁵ See "Supplemental Testimony Cheryl D. Martin on Behalf of the United States Postal Service," Docket No. N2012-1,USPS-ST-2, at 5.

Table 9

Calculating the Cost Savings from Converting 32
PVS Sites to HCR Transportation

Total Labor Costs Saved	\$85,248,919
Total Vehicle Costs Saved	\$12,792,448
Total Miles	18,439,757
HCR Cost Per Mile	\$2.05
Additional HCR Cost	\$37,770,602
Net Cost Savings	\$60,270,766

Source: Library Reference USPS-LR-N2012-1/93

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3 As before, the Postal Service also anticipates that the change in service
4 standards will impact the plant-to-post office portion of its HCR network.
5 Previously, witness Martin estimated that there would be a 13.7 percent
6 reduction in capacity in the plant-to-post office portion of the network.¹⁶ She
7 presents a revised estimated percentage reduction in her supplemental
8 testimony. That revised estimate is 3.18%.¹⁷

9 As before, the baseline for calculating plant-to-post office cost savings
10 includes both the FY 2010 costs for Intra-P&DC transportation and the (revised)

¹⁶ See, “Direct Testimony Cheryl D. Martin on Behalf of the United States Postal Service,” Docket No. N2012-1, USPS-T-6, at Section II B.

¹⁷ See “Supplemental Testimony Cheryl D. Martin on Behalf of the United States Postal Service,” Docket No. N2012-1, USPS-ST-2, at 5.

1 additional HCR cost created by the conversion of PVS sites to HCR
 2 transportation. The cost savings in this part of the transportation network are
 3 presented in Table 10. As with the plant-to-plant portion of highway
 4 transportation, there are smaller plant-to-post office cost savings in the revised
 5 network.

6

Table 10

Calculating Cost Savings in the Plant-to-Post Office Portion of the HCR Network

Baseline Cost	\$1,029,551,632
Capacity Reduction	3.2%
Capacity Variability	70.2%
Savings	\$22,989,962

Source: Library Reference USPS-LR-N2012-1/93

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III. THE REVISED OVERALL CHANGE IN COST

This section of my testimony presents the revised estimate of gross cost savings flowing from the service standard change.

The revised cost changes occur in five areas, mail processing labor cost changes, transportation cost changes, facility related cost changes, mail processing equipment cost changes, and workload reduction cost changes.

The revised cost changes for the first two areas are presented and explained in this testimony; the revised cost changes for the last three are presented in the testimony of Witness Smith, USPS-ST-3. Table 11 presents the cost savings for each of these five areas along with the total cost savings.

1

Table 11
Revised Cost Savings Flowing from by the Proposed Service
Standard Change

Mail Processing Labor Cost Changes	
Workload Transfer	\$58.4
Productivity Gains	\$968.2
Premium Pay Reductions	\$72.0
Supervision and Plant Management Reductions	\$80.3
In Plant Support Reductions	\$35.3
Indirect Cost Reductions	\$136.3
Subtotal	\$1,350.5
Transportation Cost Changes	
Air Transportation Additions	-\$124.9
Plant-to-Plant HCR Network Restructuring	\$100.2
PVS to HCR Conversions	\$60.3
Plant-to-PO Network Restructuring	\$23.0
Subtotal	\$58.6
Facility Related Costs Changes	
Building Maintenance and Custodial Labor	\$153.7
Utilities	\$48.5
Supplies and Contractor Costs	\$12.7
Rents or Rental Opportunity Costs	\$35.7
Subtotal	\$250.5
Mail Processing Equipment Cost Changes	
Maintenance Labor	\$281.4
Parts and Supplies	\$53.4
Subtotal	\$334.7
Work Load Reduction Cost Changes	
Reduction in Outgoing Secondary Sorting	\$18.3
Replacement of CSBCS and USFM10000	\$12.6
Additional DPS Sorting	\$36.0
Subtotal	\$66.9
Total	\$2,061.3

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