

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF FILING OF THE SECOND SET OF REVISIONS TO LIBRARY  
REFERENCE USPS-LR-I-150 AND THE TESTIMONY AND  
WORKPAPERS OF WITNESS KAY -- ERRATA  
(March 13, 2000)

The United States Postal Service hereby gives notice that it is filing today the second set of revisions to the testimony and supporting material of witness Kay. The genesis of all of these revisions is a supplemental analysis of BY 1998 advertising costs. The advertising costs originally employed for BY 1998 in the rate case were those identified in preparing the FY 1998 CRA Report. In recently preparing the FY 1999 CRA, however, the Postal Service has used a more comprehensive approach to the analysis of advertising costs. These refinements allow better allocation of advertising costs to specific products and groups of products, in those instances in which such allocations are appropriate. When questions arose regarding the BY 1998 advertising cost allocations reflected in witness Kay's testimony as filed, the determination was made to do a supplemental analysis of FY 1998 advertising costs, using the new procedures developed for the FY 1999 CRA. The results of that analysis (which also revealed and corrected certain flaws in the original analysis caused by simple miscommunication) are reflected in the attached revised hard copy pages of LR-I-150 (Pages 5 and 5A), which serve as the inputs to witness Kay's use of advertising costs for purposes of her incremental cost analysis. Changing those inputs led to the instant revisions in witness Kay's testimony and workpapers.

In the testimony (USPS-T-23), the changes are as indicated on the attached sheet. Revised pages of the testimony are also attached. The individual products for which the incremental costs reported in Table 1A change are Express Mail, Priority Mail, Parcel Post, Money Orders, Post Office Boxes, and First-Class Mail Total Letters. (The reason First-Class Mail Total Letter incremental costs change is because the advertising costs originally included there have now been reallocated to the slightly broader product group of Correspondence, shown at the bottom of Table 1A.) Several group product incremental costs change as well. Conforming changes are made to several pages of the text of the testimony, as necessary.

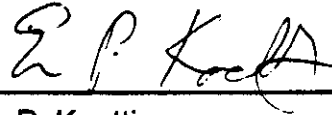
With respect to LR-I-150, a replacement CD-ROM will be provided shortly. This CD-ROM will replace entirely that provided originally. The attached sheet ("Changes To USPS-LR-I-150") describes the changes in the incremental cost model files that resulted in the changes in Tables 1A and 2A of the testimony. The only hardcopy pages of LR-I-150 that change will be to substitute the attached pages 5 and 5A to replace the original page 5. An attached sheet also lists the hardcopy pages of witness Kay's workpapers that change as a result of the LR-I-150 spreadsheet changes. Seven copies of those changed workpaper pages will be provided to the Commission. Complete copies of those pages are available to the parties upon request to undersigned counsel. As information, copies of two workpaper pages are attached to this notice, as these summarize the new base year and TYAR advertising costs by

product, and will be of the most interest to the parties.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

A handwritten signature in dark ink, appearing to read "E. P. Koetting", written over a horizontal line.

Eric P. Koetting

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March 13, 2000

**Errata to Testimony of United States Postal Service Witness Kay,**

**USPS-T-23**

**(March 13, 2000)**

1. Page 14. Updated Priority and Express product specific costs for C/S 16 Advertising in Table 3. Priority product specific in Advertising changed from \$32.9 million to \$71.2 million. Express product specific in Advertising changed from \$0.5 million to \$0.9 million. Total product specific costs for Priority changed from \$302.4 million to \$340.7 million. Total product specific costs for Express changed from \$225.5 million to \$225.9 million.

2. Page 16. Revised footnote 3 (which begins on page 15) to add the following paragraph:

"Product specific costs of \$18.5 million (TY 2001 AR) for Standard (B) Zone Rate were discovered after the filing of this Docket, in March of 2000. These product specific costs do not change the substance of this discussion, except that incremental costs for Zone Rate are now 2.6% higher than volume variable costs."

3. Page 17. Table 4. Change column heading in last column to include "(Non-Product Specific)"
4. Page 17. Revised line 11 from "...Money Orders is 39.6% higher..." to "...Money Orders is 41.2% higher ..."
5. Page 17. Revised lines 14 and 15 from "... \$5.6 million in Advertising costs in CS 16. These product specific costs account for 19% of the difference between incremental and volume..." to "...\$8.0 million in

Advertising costs in CS 16. These product specific costs account for 21.7% of the difference between incremental and volume..."

6. Page 17. Revised line 22 from "...62.4% of the difference" to "...60.0% of the difference."
7. Page 22. Table 1A. Incremental costs change for Total (FCM) Letters, Priority Mail, Express Mail, Parcels Zone Rate, Money Orders, Post Office Box, Correspondence, Advertising, and Expedited, causing changes in Rows 4, 8, 9, 10, 31, 35, 45, 49, 51, 52, 53, and 54.
8. Page 23. Table 2A. Incremental costs change for any subclass combination which includes the subclasses for which costs changed in Table 1A, causing changes in Rows 1-15, 20, 25, 29, 32, 34, and 36.

**TABLE 3.**  
**PRODUCT SPECIFIC COSTS FOR PRIORITY AND EXPRESS MAIL (TY2001(AR)),**  
**IN MILLIONS (\$000,000)**

Cost Component	Priority Mail	Express Mail
C/S 3 Mail Processing	\$ 172.4	\$ 73.1
Admin Clerks	0	11.7
Clerks/Messengers	0	6.2
C/S 7 City Carriers	0	9.7
C/S 14 Transportation	69.6	124.3
C/S 15 Rents	2.9	0
Communications	.1	0
C/S 16 Misc. Supplies	.5	0
Advertising	71.2	.9
C/S 18 Headquarters	6.6	0
Supplies & Services	13.1	0
Misc. Support	4.2	0
C/S 19 Supplies & Services	.1	0
TOTAL	\$ 340.7	\$ 225.9

Mail processing (CS 3) contributes significant product specific costs to both Priority and Express Mail. For Priority, the costs of providing dedicated manual Priority operations are considered incremental to that subclass, because these operations would be discontinued if Priority Mail were eliminated. With respect to Express mail, Dr. Bozzo (USPS-T-15) discusses a group of mail processing operations that consist of a combination of costs that are fully volume variable and costs that are fixed. This group of cost pools contains fixed costs for work related to Express Mail, which are incremental to Express Mail.

Intrinsic costs associated with providing certain types of air transportation contribute to the product specific costs for both Priority Mail and Express Mail. These premium costs, which are the costs over and above standard commercial airline costs, are product specific to Express on the Eagle Network and Western Networks, and product specific to Priority on the Christmas Network (C-Net).

1 There are also significant advertising costs for Priority Mail. These product specific  
2 costs are not volume variable, and contribute to the difference between volume variable  
3 and incremental cost.

4  
5 Table 2A shows additional product specific costs that add to the difference between  
6 volume variable and incremental cost for Express. These are comprised of product  
7 specific costs for Express mail administrative clerks and clerks/messengers in cost  
8 segment 3, and for city delivery carriers in cost segment 7. These include costs for  
9 drops and pickups from Express Mail facilities, costs for accessing Express mailboxes,  
10 and costs for fixed time at stop at Express mailboxes.<sup>2</sup>

11  
12 Product specific costs for Priority are also found in cost segments 15, 16, 18, and  
13 19.

14  
15 In addition to the product specific costs listed in Table 3, there are two relatively  
16 small cost pools with volume variable cost where the entire amount of the driver is in  
17 Express Mail. The incremental cost for these components will equal the accrued cost  
18 for the component (see page 7 of this testimony). These cost pools include costs for  
19 loading of Express Mail boxes in CS 3.4 and the costs for window service clerks (CS  
20 3.2) to provide Express Mail services.

21  
22 **1. First-Class, Periodicals, Standard (A), and Standard (B)**

23  
24 These four mail classes are discussed together because they have a common  
25 feature – none of individual subclasses within these mail classes have product specific  
26 costs.<sup>3</sup> Yet, the relationship between volume variable and incremental cost differs for

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<sup>2</sup> These are actually six separate cost pools, as shown in my workpapers, including Drop/PU Express Mail Facility SPR, Drop/PU Express Mail Facility MLR, Access EM Box Collect SPR, Access EM Box Collect LTR, Time at Stop Collect EM Boxes SPR, and Time at Stop Collect EM Boxes LTR.

<sup>3</sup> The combination of two First-Class categories - Single Piece Letters and Presort Letters - has a small amount of product specific cost, but it is only 0.1% of the difference between volume variable and incremental cost for these combined categories.

1 the subclasses within these mail classes. This section will compare the difference  
2 between volume variable and incremental cost for the subclasses in First-Class,  
3 Periodicals, Standard (A) and Standard (B) that have the greatest volume variable cost.  
4 These are First-Class Single Piece, Periodicals Outside County Regular Rate, Standard  
5 (A) Regular Enhanced Carrier Route, and Standard (B) Zone Rate.

6  
7 Incremental costs for First-Class Single Piece and Standard (A) Regular Enhanced  
8 Carrier Route mail are 5.5% and 5.9% higher than volume variable costs, respectively.  
9 However, incremental costs are less than 1% higher than volume variable costs for  
10 Regular Rate Periodicals and for Standard (B) Parcels Zone Rate.

11  
12 If all other conditions are equal<sup>4</sup>, mail subclasses with a larger share of the driver will  
13 have a larger difference between volume variable cost and incremental cost. Table 4  
14 compares the RPW volumes for selected mail subclasses with the percentage increase  
15 of incremental cost over volume variable cost. The mail subclasses with a higher  
16 percentage of RPW volumes have a larger percent difference between incremental and  
17 volume variable costs.

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Product specific costs of \$18.5 million (TY 2001 AR) for Standard (B) Zone Rate were discovered after the filing of this Docket, in March of 2000. These product specific costs do not change the substance of this discussion, except that incremental costs for Zone Rate are now 2.6% higher than volume variable costs.

<sup>4</sup> The assumption of 'all else being equal' is important here, because there are other factors that may contribute to the difference between volume variable and incremental cost. The presence of large amounts of product specific cost, as well as low volume variability, will also contribute to this difference.

This discussion relating RPW volume to the percentage increase in incremental cost is for illustrative purposes. For some cost components, the driver is not mail volume. For example, the driver for city carrier access costs is the number of stops. Incremental cost is determined by the number of these stops that are for a single subclass. In the single delivery residential (SDR) cost pool for city carrier access, Standard (A) Regular ECR has a higher percentage of single subclass stops than First-Class Single Piece mail, leading to a larger incremental cost. Similarly, city carrier load costs are driven by shape of mail. Flat shape mail has a lower volume variability than letter shape. Standard (A) ECR has a higher proportion of flat shape mail volume than First-Class Single Piece, leading to a higher incremental cost.



TABLE 4  
COMPARISON OF TY2001(AR) RPW VOLUMES WITH THE PERCENTAGE  
INCREASE OF (NON-PRODUCT SPECIFIC) INCREMENTAL OVER VOLUME  
VARIABLE COST

Mail Subclass	RPW Volume, in Millions	Percent of Total RPW for All Subclasses	Percentage Increase of (Non-Product Specific) Incremental over Volume Variable
First-Class Single Piece Letters	52,878	25.5%	5.5%
Periodicals Outside County Regular	7,352	3.5%	0.9%
Standard (A) Commercial Standard ECR	32,828	15.8%	5.9%
Standard (B) Zone Rate	374	0.2%	0.9%

## 2. Special Services

This section will highlight the two special services that show a large difference between volume variable and incremental cost – Certified and Money Orders. Incremental cost for Certified mail is 18.9% higher than volume variable cost, while incremental cost for Money Orders is 41.2% higher than volume variable cost.

Money Orders has product specific costs in two components - \$5.4 million for Money Order Division in CS 18, and \$8.0 million in Advertising costs in CS 16. These product specific costs account for 21.7% of the difference between incremental and volume variable cost. Most of the remainder of the difference is due to the Money Orders cost pool in window service (CS 3.2). All of the volume variable costs in this cost pools are in the Money Orders special service. The incremental cost for this component will equal the accrued cost for the component (see page 7 of this testimony). This cost pool, combined with the dependent cost pool for window service supervision (CS 2), adds another \$38.1 million to the difference between incremental and volume variable cost, 60.0% of the difference.

TABLE 1A. BY1998 AND TY2001(AR) VOLUME VARIABLE AND INCREMENTAL COST FOR SUBCLASSES AND CLASSES

LINE NO	CLASS SUBCLASS OR SPECIAL SERVICE	BY1998 VOLUME VARIABLE COST	BY1998 INCREMENTAL COST	TY2001(BR) VOLUME VARIABLE COST	TY2001(BR) INCREMENTAL COST	TY2001(AR) VOLUME VARIABLE COST	TY2001(AR) INCREMENTAL COST	TY2001(AR) VOLUME VARIABLE COST PER PPW/PIECE	TY2001(AR) INCREMENTAL COST PER PPW/PIECE
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	FIRST-CLASS MAIL:								
2	SINGLE-PIECE LETTERS	12,412,948	13,088,072	13,515,330	14,280,484	13,437,357	14,179,317	\$ 0.2541	\$ 0.2882
3	PRESORT LETTERS	4,167,858	4,299,679	5,050,613	5,218,914	5,019,464	5,188,914	\$ 0.1068	\$ 0.1105
4	TOTAL LETTERS	16,580,802	17,387,751	18,565,943	19,500,398	18,456,821	19,368,231	\$ 0.1848	\$ 0.1988
5	SINGLE-PIECE CARDS	519,574	531,568	554,794	567,906	539,919	552,719	\$ 0.1949	\$ 0.1985
6	PRESORT CARDS	147,145	148,718	172,878	174,731	168,958	170,800	\$ 0.0833	\$ 0.0840
7	TOTAL CARDS	666,719	680,286	727,672	742,637	708,877	723,519	\$ 0.1303	\$ 0.1331
8	TOTAL FIRST-CLASS	17,247,521	18,068,037	19,293,615	20,243,035	19,165,699	20,091,750	\$ 0.1820	\$ 0.1975
9	PRIORITY MAIL	2,395,877	2,736,316	3,263,396	3,643,465	3,064,062	3,441,926	\$ 2.4517	\$ 2.7541
10	EXPRESS MAIL	384,814	606,483	478,831	719,220	480,984	723,701	\$ 6.6525	\$ 10.0086
11	MAILGRAMS	1,105	1,135	991	1,017	1,000	1,026	\$ 0.2985	\$ 0.3073
12	PERIODICALS:								
13	IN-COUNTY	78,873	77,531	82,227	82,923	81,387	82,086	\$ 0.0944	\$ 0.0952
14	OUTSIDE COUNTY:								
15	REGULAR	1,748,728	1,765,948	2,031,214	2,050,321	1,981,587	2,000,331	\$ 0.2885	\$ 0.2721
16	NON-PROFIT	362,146	364,107	370,280	372,301	388,570	390,717	\$ 0.1893	\$ 0.1904
17	CLASSROOM	13,991	14,025	14,284	14,321	14,034	14,071	\$ 0.2548	\$ 0.2554
18	TOTAL PERIODICALS	2,202,736	2,230,504	2,499,005	2,529,870	2,465,589	2,497,245	\$ 0.2369	\$ 0.2420
19	STANDARD MAIL (A):								
20	SINGLE-PIECE RATE	213,627	213,786						
21	COMMERCIAL STANDARD:								
22	ENHANCED CARR RTE	2,234,485	2,364,600	2,527,785	2,675,104	2,471,864	2,617,126	\$ 0.0753	\$ 0.0797
23	REGULAR	5,535,163	5,624,610	7,125,095	7,242,821	6,823,934	6,937,525	\$ 0.1684	\$ 0.1692
24	TOTAL COMMERCIAL	7,769,648	8,163,178	9,652,879	10,138,605	9,295,798	9,767,090	\$ 0.1259	\$ 0.1323
25	AGGREGATE NONPROFIT:								
26	NONPROF ENH CARR RTE	189,833	189,987	212,388	212,580	208,577	208,768	\$ 0.0731	\$ 0.0732
27	NONPROFIT	1,130,549	1,141,977	1,326,100	1,339,791	1,320,811	1,334,443	\$ 0.1158	\$ 0.1168
28	TOTAL AGGREG NONPROFIT	1,300,382	1,313,238	1,538,488	1,554,011	1,529,388	1,544,778	\$ 0.1071	\$ 0.1062
29	TOTAL STANDARD (A)	9,283,657	9,602,400	11,191,366	11,812,270	10,824,967	11,431,673	\$ 0.1229	\$ 0.1288
30	STANDARD MAIL (B):								
31	PARCELS ZONE RATE	881,780	889,159	1,078,202	1,105,886	1,052,159	1,079,738	\$ 2.8125	\$ 2.8863
32	BOUND PRINTED MATTER	384,443	397,031	493,424	498,691	479,204	482,390	\$ 0.9132	\$ 0.9163
33	SPECIAL STANDARD	247,588	248,267	304,846	305,677	301,195	302,020	\$ 1.4638	\$ 1.4676
34	LIBRARY MAIL	41,051	41,102	48,295	48,355	47,444	47,504	\$ 1.6887	\$ 1.6708
35	TOTAL STANDARD (B)	1,544,872	1,570,300	1,924,767	1,975,657	1,880,002	1,930,237	\$ 1.6562	\$ 1.7036
36	US POSTAL SERVICE	262,798	263,140						
37	FREE MAIL	33,441	33,456	40,302	40,322	40,348	40,368	\$ 0.7119	\$ 0.7123
38	INTERNATIONAL MAIL	1,311,481	1,391,457	1,473,998	1,575,169	1,429,916	1,531,016	\$ 1.3861	\$ 1.4841
39	SPECIAL SERVICES:								
40	REGISTRY	99,338	99,452	89,272	89,381	85,204	85,307	\$ 7.7688	\$ 7.7793
41	CERTIFIED	402,771	474,753	494,945	588,165	461,746	548,689	\$ 1.6795	\$ 1.9808
42	INSURANCE	81,658	81,758	78,162	78,306	78,638	78,780	\$ 1.7153	\$ 1.7184
43	COD	14,171	14,193	15,105	15,129	14,991	15,016	\$ 4.2301	\$ 4.2369
44	SPECIAL DELIVERY	1	1	1	1	1	1		
45	MONEY ORDERS	122,800	176,335	159,805	224,831	153,965	217,484	\$ 0.6801	\$ 0.9804
46	STAMPED CARDS	3,208	3,208	3,444	3,444	3,444	3,444		
47	STAMPED ENVELOPES	13,111	13,118	12,542	12,549	12,544	12,551		
48	SPECIAL HANDLING	2,221	2,221	2,484	2,482	2,482	2,480		
49	POST OFFICE BOX	473,477	474,756	587,451	588,677	589,226	590,449		
50	OTHER	90,832	90,935	138,667	138,799	138,842	138,975		
51	TOTAL SPECIAL SERVICES	1,283,586	1,441,539	1,591,677	1,796,487	1,539,113	1,734,743		
52	CORRESPONDENCE	17,248,426	18,691,598	19,294,606	20,945,113	19,166,699	20,811,933	\$ 0.1820	\$ 0.1975
53	ADVERTISING	9,678,100	10,243,160	11,684,792	12,358,252	11,304,191	11,982,717	\$ 0.1275	\$ 0.1350
54	EXPEDITED	3,930,920	4,596,958	5,171,371	5,924,308	4,945,878	5,691,998	\$ 2.5621	\$ 2.9487

TABLE 2A. BY1998 AND TY2001(AR) VOLUME VARIABLE AND INCREMENTAL COST FOR SELECTED SUBCLASS COMBINATIONS

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY1998 VOLUME VARIABLE COST	BY1998 INCREMENTAL COST	TY2001(BR) VOLUME VARIABLE COST	TY2001(BR) INCREMENTAL COST	TY2001(AR) VOLUME VARIABLE COST	TY2001(AR) INCREMENTAL COST	TY2001(AR) VOLUME VARIABLE COST PER RPW PIECE	TY2001(AR) INCREMENTAL COST PER RPW PIECE
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	PRIORITY & EXPRESS	2,780,401	3,345,056	3,740,027	4,395,223	3,545,046	4,167,922	\$ 2.6541	\$ 3.1204
2	PRIORITY & PERIODICALS IN-COUNTY	2,472,750	2,814,367	3,345,622	3,726,526	3,145,459	3,524,191	\$ 1.4799	\$ 1.6561
3	PRIORITY & PERIODICALS REGULAR	4,145,603	4,514,684	5,294,610	5,706,645	5,045,650	5,456,325	\$ 0.5857	\$ 0.6333
4	PRIORITY & PERIODICALS NON-PROFIT	2,758,023	3,103,026	3,633,676	4,017,666	3,452,632	3,834,660	\$ 1.0413	\$ 1.1566
5	PRIORITY & PERIODICALS CLASSROOM	2,408,666	2,750,437	3,277,660	3,657,662	3,076,066	3,456,065	\$ 2.3346	\$ 2.6213
6	PRIORITY & STANDARD (A) NON-PROFIT	3,526,426	3,880,526	4,566,466	4,964,466	4,364,674	4,777,322	\$ 0.3455	\$ 0.3765
7	PRIORITY & STANDARD (B) ZONE RATE	3,257,657	3,646,250	4,341,566	4,761,066	4,116,221	4,551,746	\$ 2.5137	\$ 2.7767
8	PRIORITY & STANDARD (B) BPM	2,790,320	3,146,026	3,756,620	4,156,505	3,543,266	3,941,711	\$ 1.9615	\$ 2.2044
9	EXPRESS & PERIODICALS IN-COUNTY	461,467	663,946	556,656	601,663	562,362	605,636	\$ 0.6019	\$ 0.6622
10	EXPRESS & PERIODICALS REGULAR	2,134,340	2,372,674	2,507,645	2,770,162	2,462,572	2,724,661	\$ 0.3317	\$ 0.3670
11	EXPRESS & PERIODICALS NON-PROFIT	746,760	970,646	846,611	1,061,404	866,555	1,114,336	\$ 0.4063	\$ 0.5245
12	EXPRESS & PERIODICALS CLASSROOM	366,605	620,514	460,616	733,533	465,016	737,761	\$ 3.6659	\$ 5.7914
13	EXPRESS & STANDARD (A) NON-PROFIT	1,515,163	1,746,062	1,802,731	2,056,527	1,601,566	2,057,700	\$ 0.1567	\$ 0.1790
14	EXPRESS & STANDARD (B) ZONE RATE	1,246,364	1,466,637	1,554,634	1,826,613	1,533,143	1,804,734	\$ 3.4345	\$ 4.0429
15	EXPRESS & STANDARD (B) BPM	776,057	1,003,666	970,055	1,216,172	960,166	1,206,279	\$ 1.6662	\$ 2.0204
16	PERIODICALS IN-COUNTY & PERIODICALS REGULAR	1,626,566	1,845,427	2,113,440	2,135,465	2,062,665	2,064,636	\$ 0.2512	\$ 0.2536
17	PERIODICALS IN-COUNTY & PERIODICALS NON-PROFIT	436,019	442,136	452,507	455,756	466,666	473,361	\$ 0.1613	\$ 0.1624
18	PERIODICALS IN-COUNTY & PERIODICALS CLASSROOM	60,664	61,571	66,511	67,256	65,432	66,163	\$ 0.1041	\$ 0.1046
19	PERIODICALS IN-COUNTY & STANDARD (A) NON-PROFIT	1,207,422	1,216,754	1,406,327	1,422,711	1,402,006	1,416,520	\$ 0.1141	\$ 0.1153
20	PERIODICALS IN-COUNTY & STANDARD (B) ZONE RATE	636,653	667,017	1,166,429	1,166,264	1,133,556	1,162,207	\$ 0.9170	\$ 0.9402
21	PERIODICALS IN-COUNTY & STANDARD (B) BPM	471,316	474,777	575,650	579,660	560,601	564,756	\$ 0.4042	\$ 0.4072
22	PERIODICALS REGULAR & PERIODICALS NON-PROFIT	2,111,672	2,136,079	2,401,494	2,426,363	2,370,156	2,397,666	\$ 0.2520	\$ 0.2550
23	PERIODICALS REGULAR & PERIODICALS CLASSROOM	1,763,717	1,760,173	2,045,466	2,064,671	1,965,622	2,014,626	\$ 0.2664	\$ 0.2720
24	PERIODICALS REGULAR & STANDARD (A) NON-PROFIT	2,660,275	2,613,163	3,357,314	3,366,226	3,302,166	3,340,726	\$ 0.1759	\$ 0.1779
25	PERIODICALS REGULAR & STANDARD (B) ZONE RATE	2,611,506	2,663,102	3,106,416	3,166,326	3,033,746	3,066,667	\$ 0.3627	\$ 0.3669
26	PERIODICALS REGULAR & STANDARD (B) BPM	2,144,166	2,166,601	2,524,636	2,551,642	2,460,761	2,467,211	\$ 0.3124	\$ 0.3156
27	PERIODICALS NON-PROFIT & PERIODICALS CLASSROOM	376,137	376,176	364,565	366,666	402,605	404,636	\$ 0.1611	\$ 0.1621
28	PERIODICALS NON-PROFIT & STANDARD (A) NON-PROFIT	1,462,665	1,507,107	1,666,361	1,712,679	1,706,162	1,725,634	\$ 0.1266	\$ 0.1261
29	PERIODICALS NON-PROFIT & STANDARD (B) ZONE RATE	1,223,626	1,254,610	1,446,463	1,460,062	1,440,729	1,472,252	\$ 0.5636	\$ 0.6066
30	PERIODICALS NON-PROFIT & STANDARD (B) BPM	756,566	761,673	863,704	866,650	867,774	874,027	\$ 0.3367	\$ 0.3392
31	PERIODICALS CLASSROOM & STANDARD (A) NON-PROFIT	1,144,540	1,156,037	1,340,365	1,354,117	1,334,646	1,346,513	\$ 0.1163	\$ 0.1175
32	PERIODICALS CLASSROOM & STANDARD (B) ZONE RATE	675,771	663,251	1,062,467	1,120,366	1,066,163	1,063,666	\$ 2.4642	\$ 2.5467
33	PERIODICALS CLASSROOM & STANDARD (A) BPM	406,434	411,064	507,706	511,036	463,236	466,460	\$ 0.6507	\$ 0.6563
34	STANDARD (A) NON-PROFIT & STANDARD (B) ZONE RATE	1,662,326	2,032,306	2,404,303	2,447,677	2,372,770	2,416,221	\$ 0.2011	\$ 0.2046
35	STANDARD (A) NON-PROFIT & STANDARD (B) BPM	1,524,662	1,536,364	1,616,524	1,637,154	1,796,615	1,617,266	\$ 0.1506	\$ 0.1521
36	STANDARD (B) ZONE RATE & STANDARD (B) BPM	1,256,223	1,263,461	1,571,626	1,612,075	1,531,363	1,571,316	\$ 1.7037	\$ 1.7462
37	PERIODICALS:								
38	TOTAL PERIODICALS OUTSIDE COUNTY	2,125,663	2,150,361	2,415,776	2,443,660	2,364,162	2,412,210	\$ 0.2521	\$ 0.2550

## CHANGES TO USPS LR-I-150

Product specific costs for C/S 16 advertising have been updated, as shown in folder Support Materials, file BY98data.xls, pages 5 and 5A. Replacement pages are attached. The updated product specific costs have been entered into the incremental cost model, causing the following changes:

### Incremental Cost Model, Folder IC Model/R00-1

1. [IC\_Forms.xls]PROD SPEC – New advertising product specific costs entered in column 5.
2. [ICSummary.xls]Costspp – Incremental cost in column 2 reflects new product specific advertising costs. Additional changes due to updated product specific costs appear in columns 3 and 7.
3. [ICSummary.xls]Inputs PS – New advertising product specific costs in column 5.
4. [ICSummary.xls]IC Independent – New incremental cost for advertising in column 58. New total incremental for independent components in column 75.
5. [ICSummary.xls]IC All – New incremental cost for advertising in column 106. New total incremental cost for all components in column 139.
6. [ICSummary.xls]Prod Spec – New product specific costs for advertising in column 13, with new product specific outputs in column 18.
7. [TYARIC.xls]Summary – New incremental cost reflecting updated test year advertising product specific costs in column 2. New incremental cost per RPW piece in column 5.
8. [TYARIC.xls]Prod Spec – Calculation of advertising product specific costs changes in column 13. Total test year product specific in column 18.
9. [TYBRIC.xls]Summary – New incremental cost reflecting updated test year advertising product specific costs in column 2. New incremental cost per RPW piece in column 5.
10. [TYBRIC.xls]Prod Spec – Calculation of advertising product specific costs changes in column 13. Total test year product specific in column 18.

### Incremental Cost Model, Folder IC Model/two-subclass

11. [IC\_Forms.xls]PROD SPEC – New advertising product specific costs entered in column 5.
12. [ICSummary.xls]Costspp – Incremental cost in column 2 reflects new product specific advertising costs. Additional changes due to updated product specific costs appear in columns 3 and 5.
13. [ICSummary.xls]Inputs PS – New advertising product specific costs in column 5. Note that this worksheet may be hidden to facilitate printing.

14. [ICSummary.xls]IC Independent – New incremental cost for advertising in column 58.
15. [ICSummary.xls]IC All – New incremental cost for advertising in column 106. New total incremental cost for all components in column 139.
16. [ICSummary.xls]Prod Spec – New product specific costs for advertising in column 13, with new product specific outputs in column 18.
17. [TYARIC.xls]Summary – New incremental cost including contingency reflecting updated test year advertising product specific costs in column 2. New total product specific costs including contingency in column 3. New incremental cost per RPW piece in column 5.
18. [TYARIC.xls]Prod Spec – Calculation of advertising product specific costs changes in column 13. Total test year product specific in column 18. Note that this worksheet may be hidden to facilitate printing.
19. [TYBRIC.xls]Summary – New incremental cost including contingency reflecting updated test year advertising product specific costs in column 2. New total product specific costs including contingency in column 3. New incremental cost per RPW piece in column 5.
20. [TYBRIC.xls]Prod Spec – Calculation of advertising product specific costs changes in column 13. Total test year product specific in column 18. Note that this worksheet may be hidden to facilitate printing.

## FISCAL YEAR 1998 ADVERTISING COSTS

			SpecServ		EPS		Ad Mail		C&T	Other
		Row %	Cost	Row %	Cost	Row %	Cost	Row %	Cost	Cost
Product	FY98 Cost									
CorpBrand	\$15,810,193			20.0%	\$3,162,039			5.0%	\$790,510	\$11,857,645
Sponsors	\$3,003,950			20.0%	\$600,790			5.0%	\$150,198	\$2,252,963
Ad Mail	\$22,371,464					100.0%	\$22,371,464			\$0
Breast Cancer	\$235,315									\$235,315
CTCentury	\$24,783,052									\$24,783,052
Corr&Trans	\$5,568,537							100.0%	\$5,568,537	\$0
INTERNTL	\$22,612,436									\$22,612,436
Holiday	\$22,561,803			20.0%	\$4,512,361			5.0%	\$1,128,090	\$16,921,352
IndustMngmt	\$551,543							100%	\$551,543	\$0
DesktopPO	\$2,892,884									\$2,892,884
DineroSeguro	\$6,397,815									\$6,397,815
PhoneCard	\$2,435,031									\$2,435,031
LargeBusiness	\$361,570									\$361,570
LibertyCash	\$1,997,312									\$1,997,312
MoneyMovers	\$1,274,923									\$1,274,923
NewBusiness	\$488,650									\$488,650
Retail Products	\$5,915,608									\$5,915,608
PackageServices	\$71,905,637			100.0%	\$71,905,637					\$0
SalesSupprt	\$8,420,053			30.0%	\$2,528,016	30.0%	\$2,528,016	25.0%	\$2,105,013	\$1,263,008
SpecServ	\$6,251,110	100.0%	\$6,251,110							\$0
SpecialtyMkts	\$9,255,932	20.0%	\$1,851,186	40.0%	\$3,702,373					\$3,702,373
Stamps	\$8,646,245									\$8,646,245
800 CallCntrs	\$7,772,041									\$7,772,041
Retail Channel	\$10,701,271	15.0%	\$1,605,191	35.0%	\$3,745,445			5.0%	\$535,064	\$4,815,572
Areas	\$29,040,533	5.0%	\$1,452,027	35.0%	\$10,164,187	10.0%	\$2,904,053			\$14,520,267
										\$0
Total	\$291,254,908		\$11,159,514		\$100,318,846		\$27,801,533		\$10,828,954	\$141,146,061

\* The actual amount used for FY 1998 International advertising is \$26.923 million, which was the result of an independent examination of International advertising, using accounting information reported under the International Business Unit's finance numbers and working directly with the advertising agencies.

ROW PERCENTAGES ESTIMATED BY THE RESPONSIBLE PRODUCT/CHANNEL MANAGERS

SpecServ Total		\$11,159,514
Money Orders	80%	\$8,927,611
PO Boxes	10%	\$1,115,951

Balance To Other Special Services  
Special Services Proportions Estimated By Special Services Product Manager

EPS Total		\$100,318,846
Priority	79%	\$79,251,888
Parcel Post	20%	\$20,063,769
Express Mail	1%	\$1,003,188

EPS Proportions Estimated By Advertising Agency Based On Analysis of  
Relative Shares of 1998 Media and Production Expenses

**CHANGES TO WORKPAPERS OF  
WITNESS KAY (USPS-T-23)  
MARCH 13, 2000**

**The changes in the LR-I-150 spreadsheets described separately cause changes in the hardcopy workpapers, appearing on each of the following pages:**

**IIA-787 - 788  
IIA-829 - 830  
IIA-833 - 834  
IIA-851 - 854  
IIA-902 - 903  
IIA-909 - 910  
IIA-913 - 914**

**IIIA-4 - 5  
IIIA-272 - 275  
IIIA-428 - 429  
IIIA-687 - 690**

**Only pages IIIA-272 and 273 are attached, as those pages summarize the most relevant changes. Complete copies of all the changed pages are available to the parties upon request.**



**TY2001(AR) INCREMENTAL COST  
TEST YEAR INCREMENTAL COST MODEL  
TEST YEAR PRODUCT SPECIFIC COSTS**

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	C/S 16 MISC SUPPLIES AND SERVICES	C/S 16 ADP SUPPLIES AND SERVICES	C/S 16.3.5 ADVERTISING	C/S 18.2 SUPPLIES & SERVICES	C/S 18.2 MISC SPT
	COLUMN NUMBER CALCULATIONS  UNITS COLUMN SOURCE/NOTES	(11) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C3; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(12) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C4; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(13) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C5; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(14) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C8; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(15) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C9; L2 from CRA Model B Report; L25 from Rollforward Model B Report.
1	COMPONENT	177	174	246	210	211
2	BASE YEAR INSTITUTIONAL COST	488,393	323,143	300,800	322,238	61,631
3	BASE YEAR PRODUCT SPECIFIC COST					
4	TOTAL LETTERS	-	-		11,813	1,273
5	CORRESPONDANCE			10,829		
6	PRIORITY MAIL	501	-	79,252	9,452	2,362
7	EXPRESS MAIL	-	-	1,003	-	-
8	ADVERTISING			27,802		
9	ZONE RATE			20,064		
10	INTERNATIONAL MAIL	-	8,471	26,923	16,027	2,408
11	MONEY ORDERS	-	-	8,928	-	-
12	PO BOXES			1,116		
13	SPECIAL SERVICES			11,160		
14	% INSTITUTIONAL					
15	TOTAL LETTERS			0.00%	3.67%	2.07%
16	CORRESPONDANCE			3.60%		
17	PRIORITY MAIL	0.10%		26.35%	2.93%	3.83%
18	EXPRESS MAIL			0.33%		
19	ADVERTISING			9.24%		
20	ZONE RATE			6.67%		
21	INTERNATIONAL MAIL		2.62%	8.95%	4.97%	3.91%
22	MONEY ORDERS			2.97%		
23	PO BOXES			0.37%		
24	SPECIAL SERVICES			3.71%		

**TY2001(AR) INCREMENTAL COST  
TEST YEAR INCREMENTAL COST MODEL  
TEST YEAR PRODUCT SPECIFIC COSTS**

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	C/S 16 MISC SUPPLIES AND SERVICES	C/S 16 ADP SUPPLIES AND SERVICES	C/S 16.3.5 ADVERTISING	C/S 16.2 SUPPLIES & SERVICES	C/S 16.2 MISC SPT
	COLUMN NUMBER CALCULATIONS  UNITS COLUMN SOURCE/NOTES	(11) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C3; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(12) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C4; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(13) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C5; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(14) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C8; L2 from CRA Model B Report; L25 from Rollforward Model B Report.	(15) L15..L22=L4..L11 / L2; L26..L34 = L25 x L15..L22 \$(000) L4..L11 from [ICSummary.xls] InputsPS C9; L2 from CRA Model B Report; L25 from Rollforward Model B Report.
25	TEST YEAR INSTITUTIONAL COST	481,635	366,168	270,200	445,635	108,550
26	TEST YEAR PRODUCT SPECIFIC COST					
27	TOTAL LETTERS	-	-	-	18,337	2,242
28	CORRESPONDANCE			9,727		
29	PRIORITY MAIL	494	-	71,190	13,072	4,160
30	EXPRESS MAIL	-	-	901	-	-
31	ADVERTISING			24,974		
32	ZONE RATE			18,023		
33	INTERNATIONAL MAIL	-	9,599	24,184	22,164	4,241
34	MONEY ORDERS	-	-	8,020	-	-
35	PO BOXES			1,002		
36	SPECIAL SERVICES			10,025		

**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.

A handwritten signature in black ink, appearing to read "E P Koetting", is written over a horizontal line.

Eric P. Koetting

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(202) 268-2992 Fax -5402  
March 13, 2000