

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

The United States Postal Service hereby provides the response of witness Smith to Presiding Officer's Information Request No. 4, filed on February 25, 2000. Although a very large number of individuals worked on the preparation of this response, the POIR requested that a witness be made available, and Mr. Smith was selected because of his key role in coordinating this effort. It should not be expected, however, that his familiarity with this large body of material will be comprehensive.

Moreover, the Postal Service has barely completed production of the requested time series of information, and has had little time to consider its utility for purposes of analysis. While it certainly has some utility, as Mr. Smith suggests in his answer, there are many reasons why substantial reservations should be maintained about drawing any firm conclusions from this material. Many changes occurred over this time period and, despite best efforts to provide as consistent a time series as possible, a large number of those changes simply could not be controlled for in this analysis. Very careful consideration of a wide variety of factors would be necessary to assess the fundamental utility of the results of this exercise, and the Postal Service does not want to create the impression that its assessment is complete. On the other hand, it did not seem appropriate to further delay the parties' ability to examine the results of the exercise themselves.

The request is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 17, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

1. The Table in Attachment 1 shows Segment 3 (Clerks and Mailhandlers, CAG A – J Offices) unit mail processing costs for Regular Rate Periodicals for the period FY 1989 through FY 1998. The unit cost data are adjusted by each year's productive hourly wage data to account for the effects of inflation. The cost data are taken from the Postal Service's annual CRA Reports. Prior to FY 1997, the mail processing costing methodology in the CRA reports has been basically constant. FY 1997 and FY 1998 CRA figures are adjusted to account for methodological differences in order to make them more consistent with the earlier reports.

While parties might disagree about the exact 1997 and 1998 adjustment procedure, the basic trend in unit cost since 1992 is up. Periodicals mail consists almost entirely of flat-shaped matter. The Service is requested to provide shape-related cost data for certain other subclasses to help ascertain if this upward trend in flat-shaped mail costs occurs for other mail categories and other shapes as well.

To provide the record with time series data that are comparable, the Postal Service is requested to provide a table containing unit mail processing costs and city carrier in-office costs for letters, flats, and parcels/IPP's for the years 1989 to 1999 for the following subclasses: (1) First-Class Letters and Sealed Parcels, (2) Periodicals-Regular Rate, (3) Standard A Regular, (4) Standard A ECR, (5) Standard A Nonprofit, and (6) Standard A Nonprofit ECR. Attachment 2 contains an example of what this table might look like.

The Postal Service should discuss the adequacy of the costs for analytical purposes and should provide a description of its methodology and any corresponding workpapers. The mail processing costing methodology reflected in the requested table must be as consistent as possible for each year of the analysis. It is recognized that some minor changes in data collection procedures occurred in the years 1989 to 1996, and a significant change in costing methodology was made in the CRA reports for 1997 and 1998. The Service should perform appropriate adjustments to account for the changes in methodology and fully explain the rationale underlying the adjustments. Preliminary 1999 data should be provided if final figures are not available. If no 1999 data are available, the table can be updated when the data become available. [There are two attachments with this question.]

Response:

The attached Tables 1 to 8 contain the requested unit costs for FY 1989 to FY 1999. Below I summarize the methodology used to do these calculations and then

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

comment on the adequacy of the costs for analytical purposes. The full calculations are contained in USPS LR-I-233.

In brief, the methods used were mostly as suggested by the Presiding Officer's Information Request. We have used mail processing labor costs directly from the FY 1989 to FY 1996 CRAs, except to disaggregate these costs by shape, as requested. This method involves obtaining costs by shape from LIOCATT and applying the workpaper adjustments and premium pay adjustments to the costs by shape (as well as for subclass), in the same way the adjustments would be applied to costs by subclass.¹ In addition, we have applied the same methodology, as much as possible, to develop corresponding mail processing labor costs for FY97, FY98 and FY99.² For each of these years we developed LIOCATT costs and workpapers paralleling the process used in the FY 1996 CRA.

City carrier costs by shape were obtained from LIOCATT, as used in the CRAs for the years FY1989 to FY 1999. CRA costs for in-office (components 6.1) and in-office support (portion of component 6.2) were split by shape using LIOCATT carrier costs by shape.

Volumes by shape for First-Class and Standard A/third-class were obtained from current or previous rate filing and/or the best available data. FY 1989 to FY 1992

¹ The most recent example of this calculation of cost by shape is USPS LR-PCR-2, from Docket No. MC97-2.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

volumes by shape are based on combining the information developed for Docket No. R90-1 along with the more detailed FY 1993 volume data by shape. First-Class Mail volumes by shape and presort level for FY1993 to FY 1997 are based on ODIS. First-Class Mail volumes by shape and presort level for FY 1998 are based on the mailing statements and RPW as done in USPS-LR-I-102, and the same method is used for FY 1999. Standard A/third-class volumes by shape (and subclass) for FY 1993 and after are based on mailing statement data. FY 1998 volumes are from USPS-LR-I-102 and FY 1999 volumes are done in the same way.

These calculations use a fairly consistent mail processing cost methodology for the FY89 - FY99 period. Nevertheless, this method was replaced in Docket No. R97-1 by the Commission, which accepted much of the cost pool and distribution methodology proposed by the Postal Service. The new methods produce very different post-R97-1 unit costs by shape.³ Also the new methods do have important implications for classes and subclasses. Using the pre-R97-1 methods to examine the cost trends for the FY89 to FY 99 period assumes that the direction and magnitude of these biases will be consistent over time. Given significant operational changes during this period, this may not be true.

² This was done instead of the adjustment procedure suggested by the Presiding Officer's Information Request.

³ See the unit costs by shape in USPS-LR-I-81 and USPS-LR-I-137. (Piggyback factors need to be removed for comparison, as done in Part VII of USPS-LR-I-81).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

In addition, significant changes in IOCS could also impact the cost results over this period. The IOCS has evolved over time, in an ongoing effort to collect the most accurate data possible. Since FY1989, the IOCS has advanced from a paper data collection system with numerous clerks performing manual consistency checks and edits on the raw data to a system in which data are recorded using CODES data collection software on laptop computers with automatic branching and quality control checks. Almost all of the error correction process is now automated. Furthermore, the methods of forming basic estimates have changed considerably. Weighting factors have evolved from a methodology which relied on two stages of "blow-up factors" to one designed to assign a dollar-denominated weight to tallies to facilitate production of cost estimates while incorporating selection probabilities appropriately. Although reading days have been selected with differential probabilities during this time period, the day selection probabilities are incorporated into the cost weighting factors only for FY 1998 and FY 1999. The instruction that data collectors should consider the reading as a "snapshot" of work activities (and not wait for employees to handle mail) was introduced in FY 1992. Prior to FY 1992, IOCS did not attempt to count the contents of mixed mail items not subject to the "top piece rule." Beginning with FY 1996, the "top piece rule" was extended to all observations of tray and bundle handling. Beginning with FY 1996, the "top piece rule" was further extended to observations of employees monitoring the operation of automated and mechanized sorting equipment. These

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

changes affect the relative amounts of "mixed-mail" and "not-handling" tallies in the IOCS data. The LIOCATT cost distribution process does not make use of the operation-specific cost pools or the data from IOCS question 21 on mixed-mail items and containers, the use of which was adopted by the Postal Service to reduce potential biases in the distribution of mixed-mail and not-handling tallies to subclass. As these changes have been incorporated, they have been documented in the corresponding Commission Proceedings. For example, the FY 1998 IOCS system is described by witness Ramage and in documentation contained in library references USPS-LR-I-12 through I-14 in docket No. R2000-1. Other descriptions of the IOCS system over this time period are provided in the testimony and associated library references of witness Bailey (R90-1), Steele (R94-1) and witness Degen (R97-1). Preferred alternative approaches of using the method accepted by the Commission in R97-1, the method proposed by the Postal Service in Docket No. R97-1, or the method proposed by the Postal Service in the current filing, were not feasible.⁴

The availability of volume data by shape have improved during this period, leading to the most accurate data for the most recent years. In the initial period, from FY 1989 to FY 1992, there were very limited mailing statement data available and ODIS did not contain subclass information. The shape information from ODIS for these years

⁴ The fundamental obstacle to these approaches is the lack of comparable data on "identified" mixed-mail prior to FY 1992. An additional significant challenge is obtaining sufficiently detailed data to compute the

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

are for First-Class Mail as a whole (without information by presort level) and for Third-Class mail as a whole (without information for Regular and Nonprofit subclasses or information by presort level.) As a result the volumes by shape for these four years are obtained using information available for FY 1989 from Docket No. R90-1, along with the volumes by shape data for FY 1993 and the available ODIS data for these four years.⁵ Since FY 1993, ODIS data have improved due to the collection of subclass and presort level for First-Class and third-class. Mailing statement data (used primarily for Standard A and third-Class volumes by shape) have improved, as the use of PERMIT has expanded to more offices over this period.

The issues discussed above suggests the need to carefully consider how the attached results should be used. Overall trends may obtainable from these costs. It is likely, however, that the true magnitude of changes over time will not be accurately captured by these costs, given the various discontinuities associated with the underlying data, and the inadequacies of the LIOCATT based costs.

the "MODS-based" cost pool dollars prior to FY 1996 [actually, prior to FY 1994, on which the Docket No. R97-1 method was originally tested].

⁵ Parcel volumes in First-Class may be the weakest for FY 1989 to FY 1992, and that may explain the unusual results for parcels unit costs shown in Tables 1 to 3.

**Periodicals Regular Rate Unit Mail Processing Costs
Adjusted for Changes in Productive Hourly Wage Rate**

	<u>Volume (000)</u> (1)	<u>Mail Proc. Costs Pre R97-1 USPS methodology (000)</u> (2)	<u>Nominal Unit Mail Proc. Costs (cents)</u> (3)=(2)/(1)	<u>Clerks and Mailhandlers Prod. Hourly Rate (Dollars per Hour)</u> (4)	<u>Clerks and Mailhandlers Labor Cost Index base 1989=1.0</u> (5)	<u>Adjusted Unit Mail Proc. Costs (cents)</u> (6)=(3)/(5)
1989	6,523,394	358,944	5.50	19.48	1.0000	5.50
1990	6,831,400	398,540	5.83	20.86	1.0704	5.45
1991	6,995,944	418,941	5.99	22.03	1.1305	5.30
1992	6,640,122	379,751	5.72	22.86	1.1731	4.88
1993	6,858,147	404,140	5.89	23.06	1.1835	4.98
1994	6,872,470	429,994	6.26	23.54	1.2084	5.18
1995	6,939,596	454,120	6.54	23.83	1.2228	5.35
1996	6,984,301	476,857	6.83	23.96	1.2300	5.55
1997	7,254,321	509,610	7.02	24.67	1.2663	5.55
1998	7,195,006	549,855	7.64	25.10	1.2883	5.93

Sources:

- col. (1) Cost and Revenue Analysis, FY 1989-98
- col. (2) 1989-96: CRA, Cost Segments and Components Reports, USPS version
1997-98: mail proc. costs reflecting methodology proposed in R97-1 of 499,291 (1997) and 538,721 (1998)
from Cost Segments and Components Reports, USPS version,
times 1.021 which is = Pre R97-1 1996 costs divided by 1996 costs of 467,201 as proposed in R97-1 Exhibit USPS-5A, page 19
- col. (4) total segment 3 costs, CRA, Cost Segments and Components Reports, USPS version, divided by segment 3 workhours from
Natl. Payroll Summary Reports, AP 13
- col. (5) annual productive hourly rate in col. (4) divided by 1989 productive hourly rate

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 1: FIRST-CLASS LETTERS AND SEALED PARCELS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	8.02	18.42	22.10	2.34	2.73	1.11	10.36	21.15	23.21
1990	7.43	18.63	18.77	2.28	2.71	1.06	9.71	21.34	19.83
1991	7.27	17.64	20.53	2.24	2.42	1.02	9.51	20.06	21.55
1992	6.94	19.20	19.78	2.05	2.65	1.23	8.99	21.85	21.01
1993	6.81	19.14	19.30	2.05	2.51	1.29	8.86	21.65	20.58
1994	7.02	20.18	22.25	2.07	2.56	1.27	9.09	22.74	23.51
1995	7.42	21.16	20.00	2.04	2.41	1.23	9.46	23.57	21.23
1996	7.67	18.53	33.11	1.88	2.02	1.59	9.55	20.56	34.71
1997	7.37	17.54	32.71	1.71	2.17	1.96	9.08	19.72	34.67
1998	6.97	19.35	32.64	1.69	2.35	1.73	8.66	21.71	34.36
1999	6.61	19.86	32.65	1.69	2.57	1.81	8.30	22.43	34.46

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
 TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
 FOR THE YEARS 1989 TO 1999
 (Cents per Piece)

TABLE 2: FIRST-CLASS NON-CARRIER ROUTE PRESORT LETTERS AND SEALED PARCELS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	3.33	6.78	1.87	2.13	1.65	0.28	5.46	8.43	2.16
1990	3.27	6.60	2.94	2.09	1.95	0.36	5.36	8.54	3.30
1991	3.21	6.56	2.19	2.08	1.71	0.41	5.28	8.27	2.60
1992	3.05	6.57	2.48	2.03	1.58	0.44	5.07	8.15	2.92
1993	3.06	7.45	9.16	1.96	1.58	0.58	5.02	9.03	9.74
1994	3.12	8.33	7.75	1.88	1.44	0.36	5.01	9.78	8.11
1995	2.74	8.86	10.06	1.63	1.79	1.36	4.37	10.66	11.42
1996	2.68	8.60	13.65	1.30	1.54	1.49	3.98	10.14	15.14
1997	2.40	15.73	17.16	1.08	2.39	0.67	3.48	18.12	17.82
1998	2.44	18.32	46.42	1.01	2.93	3.77	3.45	21.26	50.19
1999	2.38	19.62	35.63	1.01	2.97	2.81	3.39	22.59	38.44

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 3: FIRST-CLASS CARRIER ROUTE PRESORT LETTERS AND SEALED PARCELS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	1.04	1.23	-	2.41	1.03	-	3.45	2.25	-
1990	0.91	0.99	-	2.10	1.55	0.16	3.00	2.54	0.16
1991	0.85	1.19	0.41	1.93	1.51	-	2.78	2.69	0.41
1992	0.91	1.47	0.78	1.89	1.02	-	2.80	2.49	0.78
1993	1.01	0.87	-	1.72	0.73	0.41	2.74	1.60	0.41
1994	1.07	1.24	0.36	1.66	0.63	0.33	2.72	1.87	0.68
1995	1.10	2.41	-	1.41	1.22	0.26	2.52	3.63	0.26
1996	0.81	2.22	-	1.09	0.57	-	1.90	2.80	-
1997	3.27	12.27	-	1.66	1.11	-	4.93	13.38	-
1998	1.28	N/A	N/A	0.82	N/A	N/A	2.10	N/A	N/A
1999	1.02	N/A	N/A	0.62	N/A	N/A	1.65	N/A	N/A

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 4: PERIODICAL REGULAR RATE

<u>Year</u>	<u>Mail Processing Unit Costs</u>	<u>City Carrier In-Office</u>	<u>Mail Processing + In-Office Carrier</u>
1989	5.50	1.82	7.32
1990	5.45	1.70	7.15
1991	5.30	1.68	6.98
1992	4.87	1.72	6.59
1993	4.98	1.51	6.49
1994	5.18	1.49	6.66
1995	5.35	1.48	6.83
1996	5.55	1.46	7.01
1997	5.58	1.59	7.16
1998	6.11	1.68	7.79
1999	6.25	1.50	7.74

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 5: STANDARD A REGULAR SUBCLASS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	5.00	6.60	13.16	1.97	2.12	1.19	6.97	8.71	14.35
1990	4.34	6.16	12.67	1.67	1.94	1.59	6.01	8.10	14.26
1991	4.19	6.80	16.02	1.51	1.90	1.39	5.70	8.70	17.41
1992	3.52	6.60	19.24	1.32	1.83	1.91	4.84	8.43	21.15
1993	3.84	6.67	17.03	1.23	1.64	1.54	5.07	8.32	18.57
1994	3.47	6.24	13.87	1.21	1.60	1.53	4.68	7.85	15.40
1995	3.31	6.23	13.77	1.23	1.64	1.32	4.53	7.87	15.09
1996	3.20	5.70	16.14	1.08	1.60	1.65	4.28	7.30	17.79
1997	2.98	5.28	19.51	1.02	1.52	1.62	4.00	6.80	21.13
1998	3.07	6.05	21.94	1.02	1.79	2.06	4.10	7.84	24.00
1999	2.61	5.89	21.57	0.85	1.68	1.90	3.46	7.58	23.47

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 6: STANDARD A ECR SUBCLASS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	0.99	0.44	1.53	1.78	0.93	3.79	2.77	1.36	5.32
1990	0.99	0.52	1.52	1.90	1.02	5.71	2.90	1.54	7.22
1991	0.71	0.62	2.45	1.32	1.12	5.35	2.02	1.73	7.80
1992	0.70	0.65	2.69	1.23	1.21	7.73	1.94	1.86	10.43
1993	0.65	0.67	3.44	1.25	1.05	6.22	1.91	1.72	9.66
1994	0.67	0.69	6.00	1.13	0.97	11.30	1.79	1.66	17.30
1995	0.69	0.68	4.08	1.09	0.94	8.84	1.78	1.62	12.93
1996	0.78	0.64	7.80	1.00	0.82	20.65	1.78	1.46	28.45
1997	0.71	0.64	12.00	0.81	0.69	24.33	1.52	1.33	36.34
1998	0.72	0.58	12.91	0.75	0.71	34.72	1.48	1.29	47.63
1999	0.72	0.70	44.16	0.74	0.69	64.19	1.46	1.39	108.35

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 7: STANDARD A NONPROFIT SUBCLASS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	3.20	4.12	8.81	1.19	1.27	0.77	4.40	5.39	9.58
1990	3.17	4.20	10.81	1.15	1.32	0.66	4.31	5.52	11.47
1991	3.00	4.69	11.66	1.08	1.39	1.24	4.08	6.08	12.90
1992	2.99	4.84	12.04	1.09	1.45	2.10	4.07	6.29	14.14
1993	2.95	5.23	17.10	1.02	1.48	1.85	3.97	6.71	18.95
1994	2.72	5.09	14.79	0.97	1.20	1.63	3.69	6.29	16.41
1995	2.73	5.17	15.52	0.80	1.25	1.89	3.53	6.42	17.41
1996	2.84	5.92	21.30	0.87	1.37	1.69	3.71	7.29	22.99
1997	2.80	7.01	27.72	0.82	1.49	2.33	3.62	8.50	30.05
1998	2.57	5.94	29.98	0.75	1.61	2.79	3.33	7.55	32.76
1999	2.52	6.20	35.92	0.65	1.39	2.36	3.17	7.59	38.28

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 4

SUMMARY OF UNIT COSTS FOR MAIL PROCESSING AND CITY CARRIER IN-OFFICE ACTIVITY
FOR THE YEARS 1989 TO 1999
(Cents per Piece)

TABLE 8: STANDARD A NONPROFIT ECR SUBCLASS

Year	Mail Processing Unit Costs			City Carrier In-Office			Mail Processing + In-Office Carrier		
	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS	Letters	Flats	Parcels/ IPPS
1989	0.83	0.38	2.52	1.36	0.68	-	2.19	1.06	2.52
1990	0.78	0.46	4.51	1.23	0.91	1.04	2.01	1.36	5.55
1991	0.75	0.61	1.92	1.13	0.95	0.70	1.87	1.56	2.62
1992	0.61	0.66	8.25	0.95	0.97	6.89	1.56	1.63	15.14
1993	0.74	0.69	2.71	0.99	0.98	3.75	1.72	1.67	6.46
1994	0.54	0.70	42.21	0.80	0.99	2.04	1.34	1.69	44.25
1995	0.57	0.91	0.10	0.66	0.95	2.06	1.23	1.86	2.16
1996	0.71	1.01	20.72	0.63	0.73	3.27	1.33	1.74	24.00
1997	1.03	0.97	109.17	0.67	0.82	9.76	1.70	1.79	118.93
1998	1.24	1.38	99.40	0.57	0.87	6.83	1.81	2.25	106.24
1999	1.28	0.95	151.61	0.57	0.78	16.80	1.84	1.73	168.41

Note: Costs in Cents per Piece, Wage Level Adjusted to FY 1989.

DECLARATION


I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.

Marc A. Smith
Marc A. Smith

3/17/2000
Date

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.



Eric P. Koetting

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March 17, 2000