POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO QUESTION 4 OF
PRESIDING OFFICER'S INFORMATION REQUEST NO. 9

The United States Postal Service hereby provides its response to Question 4 in

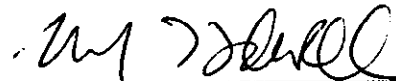Presiding Officer's Information Request No. 9, dated April 21, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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May 4, 2000

QUESTION 4 Please refer to witness Miller's (USPS-T-24) Response to
ABA&NAPM/USPS-T24-27b, the Compelled Response to ABA&NAPM/USPS-T24-1b,
and transcript at page 3201 lines 20-25.

As shown in Attachment 1, the difference in unit cost between Bulk Metered Mail
and First-Class nonautomation presort letters presented in the current docket is
significantly smaller than that presented in Docket No. R97-1.

a. Please discuss all non-methodological changes, excluding cost level changes,
that have occurred since Docket No. R97-1 (such as changes in operations, equipment
or mail piece characteristics) which have contributed to the changes in BMM and
nonautomation presort unit costs shown in the attached table.

b. Discuss the relative impact of each of the changes in methodology
implemented in the current proposal, including but not limited to those described in the
response to ABA&NAPM/USPS-T24-27b. Specifically, please quantify and discuss the
effect on the unit cost of nonautomation presort of isolating nonautomation presort letter
costs using CRA data, rather than using the model cost methodology approved by the
Commission in Docket No. R97-1.

c. Please also quantify and discuss the impact on the unit costs of the
automation non-carrier route presort categories of isolating nonautomation presort letter
costs using CRA data, rather than using the model cost methodology approved by the
Commission in Docket No. R97-1.

RESPONSE:

Docket No. R97-1 In Docket No. R97-1, the mail processing unit cost estimate

for Bulk Metered Mail (BMM) letters was CRA-derived. This estimate consisted of the

costs for all metered letters, with the exception that the "1CANCMMP" cost pool was set

to zero. This latter change reflected the assumption that BMM letters were entered in

trays, thus bypassing the cancellation and metered mail preparation operations. In

addition, the delivery unit costs for BMM letters were assumed to be identical to those

for nonautomation presort letters.

In that same docket, the unit cost for the First-Class nonautomation presort

letters rate category was a model-derived cost estimate. Both nonautomation and

automation letter models were used to "de-average" the mail processing unit costs for

"non-carrier route presort." The model cost results were weighted together using base

year mail volumes. A CRA proportional adjustment factor was calculated by dividing

Response to POIR 9 Question 4 (Continued)

the weighted model cost by the sum of the "proportional" (defined as worksharing related) CRA cost pools. The total mail processing unit cost for each rate category was then calculated by multiplying the model cost for each rate category by the CRA proportional adjustment factor, with the addition of the "fixed" CRA cost pools as a further adjustment. Delivery Point Sequence (DPS) percentages were also calculated in the models and used as a means to de-average the delivery unit costs for presort letters by rate category.

Docket No. R2000-1 In this docket, the BMM letters mail processing and delivery unit cost estimates have been calculated using methods identical to those in Docket No. R97-1.

The nonautomation presort letters mail processing unit cost, however, is now also CRA-derived. This change has been made because nonautomation presort letters and automation presort letters have different characteristics (e.g., weight limits). Despite this fact, nonautomation presort letter models have also been constructed in this docket to calculate DPS percentages. These percentages are once again used to de-average the presort delivery unit costs by rate category.

a. The cost methodology changes listed above are the primary reason why the worksharing related savings measured in this docket are smaller than that measured in Docket No. R97-1. However, other factors could also be affecting the costs for the nonautomation presort letters and BMM letters.

Operations/Equipment: There have been some operational and equipment changes that have affected the costs for both BMM letters and nonautomation presort letters. As witness Kingsley explained in her testimony (USPS-T-10, page 9, lines 23-24), the Remote Computer Read (RCR) finalization rate continues to improve (also see my response to ABA&NAPM/USPS-T24-39). In addition, the Remote Bar Coding System (RBCS) leakage rate has declined over time (see my response to ABA&NAPM/USPS-T24-40). Finally, many Delivery Bar Code Sorters (DBCS) will be retrofitted with Output Sub System (OSS) capabilities that would provide a greater depth of sort and reduce the number of handlings per mail piece (USPS-T-10, page 5 line 27 to page 6 line 1).

Response to POIR 9 Question 4 (Continued)

Mail Characteristics: The mail characteristics for nonautomation presort letters and BMM letters would also affect the mail processing unit costs. In looking at the entry profile data for nonautomation presort letters (Appendix I, page I-38), nearly 25% of the total volume is entered directly into manual operations. In addition, the machinable mail volumes are often entered into the same Input Sub System (ISS) operation, regardless of the presort level of the mail piece. For example, the upgradable 3-digit and 5-digit mail volumes would both be entered at an incoming ISS operation. As a result, the value associated with the presortation of non-barcoded upgradable mail may be lost to some extent.

The mail characteristics for metered mail are somewhat different. Any First-Class single-piece mail type (handwritten, Courtesy Reply Mail, machine printed/typed) can be metered. However, the percentage of metered mail that is handwritten is much smaller when compared to the single-piece mail volume as a whole:

FY 1997 ODIS MAIL TYPE PERCENTAGES

Mail Type	Single-Piece Letters	Metered Letters
Business Reply Mail	1.43%	0.00%
Courtesy Reply Mail	15.31%	2.31%
Handwritten	26.02%	10.77%
Machine Printed/Typed	57.24%	86.92%
Total	100.00%	100.00%

As a result, the accept and upgrade rates for metered mail (USPS-T-24, Appendix I, page I-39) are quite high. Despite the fact that a mail characteristics study has not been conducted for BMM letters, it is doubtful that 25% of this mail would need to be processed manually, as is the case with nonautomation presort letters.

b. c. It is difficult to precisely quantify the impact to the Docket No. R97-1 and R2000-1 results without having attempted to use both methods for each case. However, I will attempt to explain the impact in general quantitative terms for the methodology changes that I listed in my response to ABA&NAPM/USPS-T24-27(b).

③

Response to POIR 9 Question 4 (Continued)

CRA Mail Processing Unit Cost Categories: As stated earlier, the separation of nonautomation and automation non-carrier route presort mail processing unit costs is the primary reason why the worksharing related savings measured in this docket for nonautomation presort letters are smaller than that measured in Docket No. R97-1.

For comparison purposes, I have provided the CRA mail processing unit costs for Bulk Metered Mail (BMM) letters and the presort categories in Attachment 1. The mail processing unit costs for the two CRA presort categories used in this docket have been weighted together using base year mail volumes and are compared to the total mail processing unit cost used in Docket No. R97-1.

Attachment 1 shows that the mail processing unit costs for BMM letters have decreased from those measured in Docket No. R97-1. This finding is not surprising given that the RCR finalization rate continues to improve and a high percentage of metered mail is machine printed or typed.

Conversely, the aggregate cost for all non-carrier route presort mail appears to have increased. Once again, this is not surprising given that a fairly high percentage (25%) of nonautomation letters are processed manually. In addition, the focus of Postal Service letter automation efforts has been to apply barcodes to non-barcoded mail pieces. As a result, the costs for non-barcoded machinable mail pieces would be affected to a greater extent than the corresponding costs for prebarcoded machinable mail pieces, which represent 89% of the total presort volume.

Cost Models: Attachments 2-7 compare the model costs by operation from Docket No. R97-1 to those used in this docket. Mail volumes and weighted costs for each operation are shown. The results for the nonautomation presort letter models that have been constructed in this docket are also included, despite the fact that the model costs are not relied upon to calculate the worksharing related savings in my testimony. (As stated previously, the CRA-derived costs are used for nonautomation letters.)

It is difficult to precisely compare the model cost results from both dockets because of the many enhancements to the data that have been implemented in this docket. These enhancements include: 100% automation coverage, updated density tables, de-averaged productivities, and weighted automation piggyback factors.

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Response to POIR 9 Question 4 (Continued)

In Docket No. R97-1, equipment "coverage" factors were calculated for letter and card operations. Many of these factors were in the upper 90 percentile range. In addition, the calculations were based on whether a specific site (as defined by the SCF labeling list in the DMM) had a specific type of equipment. If it did, the volume data for that site was classified as "covered." This methodology, however, was not entirely accurate. Some sites that did not house equipment had their mail processed at another site that did house equipment.

In this docket it is assumed that letter/card operations are 100% covered. The sites that have been scheduled to house automated equipment already have the vast majority of that equipment. In addition, the methodology that has been used in the past would understate the factors to some extent, yet would still yield results in the upper 90 percentile. Therefore, for modeling purposes, it is appropriate to make this assumption.

In Docket No. R97-1, the density tables from Docket No. MC95-1 (MCR-3) were used. The automation table from that docket was calculated using data obtained from 40 plants. These data, however, were not collected for the same time period. In addition, the automation data were used to calculate manual tables.

In this docket, the automation density table (Miller Workpaper 1) is calculated using data that have been collected from 40 plants for the same Accounting Period (AP). In addition, manual density data have been collected (where available) and used to adjust MODS volumes from the same AP for each reporting site. As a result, the manual table more closely depicts the flow for manual operations.

In Docket No. R97-1, many MODS productivity values were calculated by machine type, rather than by operation. In this docket, the MODS productivity values have been de-averaged by operation to better estimate the costs by operation.

In Docket No. R97-1, the Mail Processing Bar Code Sorter (MPBCS) piggyback factor was used for all automated non-incoming secondary operations. In reality, both the MPBCS and the Delivery Bar Code Sorter (DBCS) are used for these operations, with the DBCS being used to a greater extent in "upstream" operations. As a result, weighted piggyback factors have been calculated using the percentage of MODS volumes that are processed on each machine in each operation.

(5)

Response to POIR 9 Question 4 (Continued)

Cost Pool Classifications: In Docket No. R97-1, witness Hatfield stated the following at USPS-T-25, page 10, lines 14-20:

> By categorizing each of the 46 unit costs that comprise the benchmark as either proportional to model related costs or fixed with respect to model related costs, the benchmark is divided into a proportional component and a fixed component. The proportional component represents the mail processing costs that are related to worksharing activities and the fixed component represents the costs that are not related to worksharing activities.

In this docket, I have also separated the costs into worksharing related and non-worksharing related cost pools, but I have used three classifications rather than the "proportional" and "fixed" classifications used in Docket No. R97-1. These classifications are: "worksharing related proportional," "worksharing related fixed," and "non-worksharing related fixed." In addition, I have classified fewer cost pools as "worksharing related proportional." In Docket No. R97-1, the "proportional" cost pools represented 91% of the total CRA cost. In this docket, the "worksharing related proportional" cost pools represent 64-67% of the total CRA costs.

In this docket, the only costs I have classified as "worksharing related proportional" are those costs directly affected by piece distribution or package sorting operations (see my response to ABA&NAPM/USPS-T24-12). In most cases, these are tasks that could have been modeled. As a result, the CRA-adjusted cost differences between rate categories that have been de-averaged using models (e.g., automation basic, 3-digit, and 5-digit letters) are not as great as they might have been otherwise.

CRA Adjustments: In Docket No. R97-1, each model cost was multiplied by the "proportional" CRA adjustment factor and added to the "fixed" component in order to determine the total mail processing unit cost.

In this docket, I perform similar calculations. Each model cost (where relied upon for estimating purposes) is multiplied by the "worksharing related proportional" CRA adjustment factor and added to both the "worksharing related fixed" component and the "non-worksharing related fixed" component in order to determine the total mail processing cost.

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Response to POIR 9 Question 4 (Continued)

The proportional factors can be used as a means of comparison. In Docket No.
R97-1, the "non-carrier route presort" CRA proportional adjustment factor was 1.0869.
In this docket, the "automation non-carrier route presort" CRA worksharing related
proportional adjustment factor is 0.826. Although it has not been used, a
"nonautomation presort" CRA worksharing related proportional adjustment factor can
be calculated as follows:

Factor = Weighted Model Cost / Worksharing Related Proportional Cost Pools

= 7.788 cents / 7.750 cents

= 1.005

It is not surprising that these factors are somewhat lower than those used in the
last rate case given the fact that the same tasks have been modeled, but fewer cost
pools have been classified as "worksharing related proportional." In my opinion, the
"worksharing related proportional" cost pools should only consist of those tasks that
could be modeled. In other words, these factors should be applied to the model cost
results in order to compensate for the fact that "average" data and simplified processing
assumptions are used.

Some intervenors expressed concern that some CRA proportional adjustment
factors are greater than 1, while others are less than 1. This concern is addressed in
my response to MMA/USPS-T24-20d, where I state:

> As stated in the responses to several MMA interrogatories, simplified mail
> processing assumptions are used to construct cost models. In general, I would
> expect these assumptions to have a greater impact on mail types that must be
> processed through the Remote Bar Code System (RBCS). Therefore, I am not
> surprised that the cost models for First-Class metered letters and First-Class
> nonautomation presort letters understate the CRA-derived "worksharing related
> proportional" mail processing unit costs as shown in my responses to (a1) and
> (a2), respectively.
>
> The First-Class automation presort letters rate categories, however, are easier to
> model because this mail should not theoretically be processed through the more
> complicated RBCS network. In addition, these mail pieces have lower weight
> limits. As a result, I am not surprised that the cost models for the automation
> presort letters rate categories overstate the CRA-derived "worksharing related
> proportional" mail processing unit costs as shown in my response to (a3).

Response to POIR 9 Question 4 (Continued)

Worksharing Related Savings Calculations: In Docket No. R97-1, pricing witness Fronk (USPS-T-32) used the total mail processing unit costs from the testimony of witness Hatfield (USPS-T-25) to calculate the cost differences that he used as a basis for his discount proposals. The total mail processing unit costs included the "fixed" costs that witness Hatfield had stated were not related to worksharing.

As a result, I have performed the worksharing related savings calculations in my testimony and excluded the "non-worksharing related fixed" cost pools from the savings calculations. It only stands to reason that if a cost pool is classified as not being related to worksharing activities it should not have an impact on the measured savings.

The impact that this change has had on the worksharing related savings can be calculated (using the PRC volume variability methodology) by comparing the compelled response to ABA&NAPM/USPS-T24-1b to the results found in USPS LR-I-147.

Rate Category	ABA&NAPM/ USPS-T24-1b	USPS LR-I-147	Difference
Nonauto Letters	-0.255 cents	-0.069 cents	- 0.186 cents
Auto Basic Letters	6.880 cents	5.870 cents	1.010 cents
Auto 3-Digit Letters	1.133 cents	1.133 cents	0.000 cents
Auto 5-Digit Letters	1.411 cents	1.411 cents	0.000 cents

The intervenors seem to be primarily concerned with four of the cost pools that have been classified as "non-worksharing related fixed." These cost pools are: "1platfrm," "1SuppF1," "1SuppF4," and "Allied." It should be noted that the largest contribution to the worksharing related savings would have come from the "1platfrm" cost pool (had it been classified as worksharing related). In Docket No. R97-1, however, that cost pool was classified as "fixed" and was therefore not related to worksharing as per witness Hatfield's definition. Therefore, there has been no classification change since the last rate case. In addition, had this cost pool been included, a situation would have been created where platform costs would be included in both the prebarcoding/presorting discounts and destination entry discounts for Standard Mail (A). This "double dipping" situation would have occurred due to the fact that witness Crum's (USPS-T-27) destination entry analysis includes platform ("nontransportation") cost savings.

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CRA MAIL PROCESSING UNIT COST COMPARISON

Rate Category	FY 1998 Volume (000)	FY 1998 Percent	Docket No. R2000-1 CRA Mail Process Unit Cost	Weighted Docket No. R2000-1 CRA Mail Process Unit cost	Docket No. R97-1 CRA Mail Process Unit Cost	Change
BMM Letters	---	---	11.315	11.315	12.580	-1.265 1/
Nonauto Letters	4,409,369	11.35%	11.570			
Auto Basic Letters	4,594,275			5.179	4.093	1.087
Auto 3-Digit Letters	19,631,232					
Auto 5-Digit Letters	10,203,174					
Auto Subtotal	34,428,681	88.65%	4.361			
Presort Total	38,838,050	100.00%				

1/ 1.16 cents of this difference (1.81 cents - 0.65 cents) occurs in the LD 15 RBCS cost pool and is likely due to RCR finalization rate improvements.

NONAUTOMATION PRESORT: OCR Upgradable Mail in "OCR" Trays
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	0	0	0	0.000	0.000	0.000
	Outgoing ISS	2,552	2,579	27	0.239	0.224	-0.015
2/	Outgoing RCR/REC	1,011	1,055	44	0.272	0.187	-0.085
	Outgoing OSS	978	1,094	116	0.038	0.062	0.024
	Outgoing LMLM	69	108	39	0.005	0.021	0.016
	Out Prim Auto	113	67	-46	0.007	0.008	0.001
	Out Prim Man	113	67	-46	0.076	0.055	-0.021
	Out Sec Auto	549	716	167	0.034	0.056	0.022
	Out Sec Man	45	42	-3	0.029	0.035	0.006
3/	Incoming ISS	7,157	7,559	402	0.669	1.027	0.358
3/	Incoming RCR/REC	2,646	3,093	447	0.712	0.550	-0.162
3/	Incoming OSS	2,561	3,207	646	0.100	0.187	0.087
3/	Incoming LMLM	181	316	135	0.014	0.063	0.049
	Inc MMP Auto	495	618	123	0.031	0.069	0.038
	Inc MMP Man	117	261	144	0.068	0.175	0.107
4/	Inc SCF/Prim Auto	1,898	3,275	1,377	0.119	0.327	0.208
4/	Inc SCF/Prim Man	782	204	-578	0.568	0.126	-0.442
5/	5-Digit Barcode Sort	0	521	521	0.000	0.052	0.052
	Inc Sec Auto Carrte	2,119	2,721	602	0.149	0.313	0.164
	Inc Sec Auto 3-Pass DPS	3,618	3,707	89	0.094	0.152	0.058
	Inc Sec Auto 2-Pass DPS	10,602	12,078	1,476	0.822	0.917	0.095
	Inc Sec Man (Plant)	1,794	1,190	-604	1.233	0.919	-0.314
	Inc Sec Man (DU)	1,394	422	-972	0.541	0.143	-0.398
	Box Sect DPS	542	625	83	0.100	0.107	0.007
	Box Sect Other	348	265	-83	0.129	0.090	-0.039
					6.079	5.865	-0.214

1/ The acceptance/verification costs for R97-1 were included in the model costs, even though they were not actually modeled. These costs were taken directly from the LD 79 cost pool in the CRA mail processing unit costs.

2/ The RCR and REC keying costs were combined in R97-1, but were separated in R2000-1. The volume listed for R2000-1 is for the RCR pieces. It should be noted that some pieces would be finalized and not processed at the REC.

3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

NONAUTOMATION PRESORT: OCR Upgradable Mail in "NON-OCR" Trays
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	10,000	10,000	0	0.521	0.567	0.046
	Outgoing ISS	1,142	2,207	1,065	0.107	0.191	0.084
2/	Outgoing RCR/REC	452	1,096	644	0.122	0.195	0.073
	Outgoing OSS	438	1,164	726	0.017	0.066	0.049
	Outgoing LMLM	31	180	149	0.002	0.036	0.034
	Out Prim Auto	50	54	4	0.003	0.006	0.003
	Out Prim Man	42	76	34	0.028	0.062	0.034
	Out Sec Auto	245	579	334	0.015	0.045	0.030
	Out Sec Man	19	38	19	0.012	0.031	0.019
3/	Incoming ISS	7,952	8,115	163	0.743	1.103	0.360
3/	Incoming RCR/REC	2,912	4,029	1,117	0.784	0.717	-0.067
3/	Incoming OSS	2,819	4,280	1,461	0.110	0.250	0.140
3/	Incoming LMLM	201	661	460	0.015	0.132	0.117
	Inc MMP Auto	221	536	315	0.014	0.060	0.046
	Inc MMP Man	51	337	286	0.030	0.225	0.195
4/	Inc SCF/Prim Auto	1,256	3,055	1,799	0.079	0.305	0.226
4/	Inc SCF/Prim Man	262	203	-59	0.188	0.125	-0.063
5/	5-Digit Barcode Sort	0	541	541	0.000	0.054	0.054
	Inc Sec Auto Carrte	2,114	2,694	580	0.149	0.309	0.160
	Inc Sec Auto 3-Pass DPS	3,607	3,669	62	0.094	0.150	0.056
	Inc Sec Auto 2-Pass DPS	10,573	11,954	1,381	0.820	0.907	0.087
	Inc Sec Man (Plant)	1,784	1,253	-531	1.226	0.968	-0.258
	Inc Sec Man (DU)	1,422	445	-977	0.552	0.151	-0.401
	Box Sect DPS	540	619	79	0.100	0.106	0.006
	Box Sect Other	350	271	-79	0.129	0.093	-0.036
					5.890	**6.854**	**0.964**

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3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

NONAUTOMATION PRESORT: NON-OCR Upgradable Mail in "NON-OCR" Trays
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	10,000	10,000	0	0.780	0.841	0.061
	Outgoing ISS	46	425	379	0.004	0.037	0.033
2/	Outgoing RCR/REC	22	211	189	0.006	0.037	0.031
	Outgoing OSS	21	224	203	0.001	0.013	0.012
	Outgoing LMLM	2	35	33	0.000	0.007	0.007
	Out Prim Auto	3	10	7	0.000	0.001	0.001
	Out Prim Man	59	530	471	0.040	0.430	0.390
	Out Sec Auto	10	112	102	0.001	0.009	0.008
	Out Sec Man	10	104	94	0.006	0.086	0.080
3/	Incoming ISS	3,937	4,162	225	0.368	0.565	0.197
3/	Incoming RCR/REC	1,754	2,066	312	0.472	0.367	-0.105
3/	Incoming OSS	1,686	2,195	509	0.066	0.128	0.062
3/	Incoming LMLM	177	339	162	0.013	0.068	0.055
	Inc MMP Auto	13	144	131	0.001	0.016	0.015
	Inc MMP Man	104	716	612	0.061	0.479	0.418
4/	Inc SCF/Prim Auto	431	1,220	789	0.027	0.122	0.095
4/	Inc SCF/Prim Man	1,226	2,928	1,702	0.950	1.812	0.862
5/	5-Digit Barcode Sort	0	244	244	0.000	0.024	0.024
	Inc Sec Auto Carrte	914	1,201	287	0.064	0.138	0.074
	Inc Sec Auto 3-Pass DPS	1,560	1,636	76	0.041	0.067	0.026
	Inc Sec Auto 2-Pass DPS	4,573	5,330	757	0.355	0.405	0.050
	Inc Sec Man (Plant)	5,629	4,649	-980	3.868	3.592	-0.276
	Inc Sec Man (DU)	1,433	1,649	216	0.556	0.559	0.003
	Box Sect DPS	234	276	42	0.043	0.047	0.004
	Box Sect Other	656	614	-42	0.242	0.209	-0.033
					7.997	10.059	2.062

1/ The acceptance/verification costs for R97-1 were included in the model costs, even though they were not actually modeled. These costs were taken directly from the LD 79 cost pool in the CRA mail processing unit costs.

2/ The RCR and REC keying costs were combined in R97-1, but were separated in R2000-1. The volume listed for R2000-1 is for the RCR pieces. It should be noted that some pieces would be finalized and not processed at the REC.

3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

AUTOMATION BASIC PRESORT
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	0	0	0	0.000	0.000	0.000
	Outgoing ISS	0	0	0	0.000	0.000	0.000
2/	Outgoing RCR/REC	0	0	0	0.000	0.000	0.000
	Outgoing OSS	0	0	0	0.000	0.000	0.000
	Outgoing LMLM	0	0	0	0.000	0.000	0.000
	Out Prim Auto	4,812	4,833	21	0.301	0.553	0.252
	Out Prim Man	273	232	-41	0.183	0.188	0.005
	Out Sec Auto	792	346	-446	0.050	0.027	-0.023
	Out Sec Man	81	58	-23	0.052	0.048	-0.004
3/	Incoming ISS	0	0	0	0.000	0.000	0.000
3/	Incoming RCR/REC	0	0	0	0.000	0.000	0.000
3/	Incoming OSS	0	0	0	0.000	0.000	0.000
3/	Incoming LMLM	0	0	0	0.000	0.000	0.000
	Inc MMP Auto	5,569	5,957	388	0.348	0.668	0.320
	Inc MMP Man	398	333	-65	0.232	0.222	-0.010
4/	Inc SCF/Prim Auto	4,893	4,682	-211	0.306	0.467	0.161
4/	Inc SCF/Prim Man	840	302	-538	0.511	0.187	-0.324
5/	5-Digit Barcode Sort	0	0	0	0.000	0.000	0.000
	Inc Sec Auto Carrte	2,231	2,804	573	0.157	0.322	0.165
	Inc Sec Auto 3-Pass DPS	3,807	3,820	13	0.099	0.157	0.058
	Inc Sec Auto 2-Pass DPS	11,162	12,446	1,284	0.866	0.945	0.079
	Inc Sec Man (Plant)	1,482	1,001	-481	1.018	0.773	-0.245
	Inc Sec Man (DU)	1,347	355	-992	0.523	0.120	-0.403
	Box Sect DPS	570	644	74	0.105	0.110	0.005
	Box Sect Other	320	246	-74	0.118	0.084	-0.034
					4.900	**4.871**	**-0.029**

1/ The acceptance/verification costs for R97-1 were included in the model costs, even though they were not actually modeled. These costs were taken directly from the LD 79 cost pool in the CRA mail processing unit costs.

2/ The RCR and REC keying costs were combined in R97-1, but were separated in R2000-1. The volume listed for R2000-1 is for the RCR pieces. It should be noted that some pieces would be finalized and not processed at the REC.

3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

AUTOMATION 3-DIGIT PRESORT
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	0	0	0	0.000	0.000	0.000
	Outgoing ISS	0	0	0	0.000	0.000	0.000
2/	Outgoing RCR/REC	0	0	0	0.000	0.000	0.000
	Outgoing OSS	0	0	0	0.000	0.000	0.000
	Outgoing LMLM	0	0	0	0.000	0.000	0.000
	Out Prim Auto	0	0	0	0.000	0.000	0.000
	Out Prim Man	0	0	0	0.000	0.000	0.000
	Out Sec Auto	0	0	0	0.000	0.000	0.000
	Out Sec Man	0	0	0	0.000	0.000	0.000
3/	Incoming ISS	0	0	0	0.000	0.000	0.000
3/	Incoming RCR/REC	0	0	0	0.000	0.000	0.000
3/	Incoming OSS	0	0	0	0.000	0.000	0.000
3/	Incoming LMLM	0	0	0	0.000	0.000	0.000
	Inc MMP Auto	0	0	0	0.000	0.000	0.000
	Inc MMP Man	0	0	0	0.000	0.000	0.000
4/	Inc SCF/Prim Auto	9,657	10,000	343	0.604	0.997	0.393
4/	Inc SCF/Prim Man	935	430	-505	0.738	0.266	-0.472
5/	5-Digit Barcode Sort	0	0	0	0.000	0.000	0.000
	Inc Sec Auto Carrte	2,306	2,884	578	0.162	0.331	0.169
	Inc Sec Auto 3-Pass DPS	3,937	3,929	-8	0.102	0.161	0.059
	Inc Sec Auto 2-Pass DPS	11,536	12,801	1,265	0.895	0.972	0.077
	Inc Sec Man (Plant)	1,242	819	-423	0.854	0.633	-0.221
	Inc Sec Man (DU)	1,345	291	-1,054	0.522	0.099	-0.423
	Box Sect DPS	590	662	72	0.109	0.113	0.004
	Box Sect Other	301	228	-73	0.111	0.078	-0.033
					4.128	3.650	-0.478

1/ The acceptance/verification costs for R97-1 were included in the model costs, even though they were not actually modeled. These costs were taken directly from the LD 79 cost pool in the CRA mail processing unit costs.

2/ The RCR and REC keying costs were combined in R97-1, but were separated in R2000-1. The volume listed for R2000-1 is for the RCR pieces. It should be noted that some pieces would be finalized and not processed at the REC.

3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

AUTOMATION 5-DIGIT PRESORT
Model Cost Comparison (Docket Nos. R 97-1/R2000-1)

	Operation Description	(A) Docket No. R97-1 (PRC LR-10) Model Volume	(B) Docket No. R2000-1 (LR-I-147) Model Volume	(B) - (A) Difference	(C) Docket No. R97-1 (PRC LR-10) Model Cost	(D) Docket No. R2000-1 (LR-I-147) Model Cost	(D) - (C) Difference
1/	Accept/Verify	10,000	0	-10,000	0.031	0.000	-0.031
	Package Sorting	0	0	0	0.000	0.000	0.000
	Outgoing ISS	0	0	0	0.000	0.000	0.000
2/	Outgoing RCR/REC	0	0	0	0.000	0.000	0.000
	Outgoing OSS	0	0	0	0.000	0.000	0.000
	Outgoing LMLM	0	0	0	0.000	0.000	0.000
	Out Prim Auto	0	0	0	0.000	0.000	0.000
	Out Prim Man	0	0	0	0.000	0.000	0.000
	Out Sec Auto	0	0	0	0.000	0.000	0.000
	Out Sec Man	0	0	0	0.000	0.000	0.000
3/	Incoming ISS	0	0	0	0.000	0.000	0.000
3/	Incoming RCR/REC	0	0	0	0.000	0.000	0.000
3/	Incoming OSS	0	0	0	0.000	0.000	0.000
3/	Incoming LMLM	0	0	0	0.000	0.000	0.000
	Inc MMP Auto	0	0	0	0.000	0.000	0.000
	Inc MMP Man	0	0	0	0.000	0.000	0.000
4/	Inc SCF/Prim Auto	0	0	0	0.000	0.000	0.000
4/	Inc SCF/Prim Man	0	0	0	0.000	0.000	0.000
5/	5-Digit Barcode Sort	0	0	0	0.000	0.000	0.000
	Inc Sec Auto Carrte	2,427	3,014	587	0.171	0.346	0.175
	Inc Sec Auto 3-Pass DPS	4,144	4,106	-38	0.108	0.168	0.061
	Inc Sec Auto 2-Pass DPS	12,143	13,377	1,234	0.942	1.015	0.073
	Inc Sec Man (Plant)	852	524	-328	0.586	0.405	-0.181
	Inc Sec Man (DU)	1,345	186	-1,159	0.522	0.063	-0.459
	Box Sect DPS	621	692	71	0.114	0.118	0.003
	Box Sect Other	198	0	-198	0.099	0.068	-0.032
					2.573	**2.184**	**-0.390**

1/ The acceptance/verification costs for R97-1 were included in the model costs, even though they were not actually modeled. These costs were taken directly from the LD 79 cost pool in the CRA mail processing unit costs.

2/ The RCR and REC keying costs were combined in R97-1, but were separated in R2000-1. The volume listed for R2000-1 is for the RCR pieces. It should be noted that some pieces would be finalized and not processed at the REC.

3/ The RBCS operations from R97-1 are the sum of the ADC/AADC Distribution, SCF, and Incoming Primary operations.

4/ In R97-1, the Inc SCF and Inc Prim operations were shown separately. In this docket, they are combined.

5/ In R97-1, this operation was not included in the models.

Worksharing Related Costs
First-Class BMM and Nonauto Presort Letters
(cents per piece)

	USPS Methodology			PRC Methodology		
	R97-1 1/	R2000-1 2/	Change	R97-1 3/	R2000-1 4/	Change
Bulk Metered Mail	14.73	13.81	-0.92	17.49	16.79	-0.69
Nonautomation Presort Letters	11.35	13.72	2.37	12.94	17.05	4.11
Cost Avoidance (BMM - Prst.)	3.38	0.09		4.55	-0.25	

1/ Source: Docket No. R97-1, USPS-T-29, Exhibit C, pg 1.
2/ Source: USPS-T-24, Appx I, pg 1 (revised 3/31/00)
3/ Source: Docket No. R97-1, PRC-LR-10 and PRC-LR-20
4/ Source: Attch. 2 of 5 to ABA&NAPM/USPS-T24-1b. The costs reflect the variabilities and cost pool categories approved in R97-1.

DECLARATION

I, Michael W. Miller, declare under penalty of perjury that the foregoing answers

are true and correct, to the best of my knowledge, information, and belief.

Dated: 5/4/2011

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.

Michael T. Tidwell

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May 4, 2000