UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes) Docket No. R2000-1

NOTICE OF THE OFFICE OF THE CONSUMER ADVOCATE
CONCERNING ERRATA TO THE TESTIMONY OF OCA
WITNESS: JAMES F. CALLOW OCA-T-6
(June 29, 2000)

The Office of the Consumer Advocate hereby gives notice of the filing of the following revisions to the testimony of James F. Callow (OCA-T-6, Parts I, II and III), filed on May 22, 2000. The changes to the testimony are set forth below. The revised pages are attached.

Respectfully submitted,

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OCA-T-6, Purpose and Scope

Page	Line	Correction
3	4	Delete "and cards"
4	2	Delete "and cards"

OCA-T-6, Part I

6	Note 3	Insert "attributable" after "exceed"
13		Replace Table 4 and Figure 4 to reflect change in 1998. Change "1.308" to "1.310"
14		Replace Table 5 and Figure 5 to reflect change in 1998. Change "1.110" to "1.112"
18	14	Delete "four" and insert "five"
18	14	Delete "1997" and insert "1998"
18	15	Delete "through" and insert "in"
19		Replace Table 8 and Figure 8 to reflect changes in 1998. Change "1.308" and "0.949" to "1.310" and "0.899," respectively
20		Replace Table 9 and Figure 9 to reflect changes in 1998. Change "1.110" and "0.982" to "1.112" and "0.963," respectively
21	Note 9	After the last period insert "*See also* PRC Op. MC95-1, ¶1019."
23	Note 12	After "LR-" insert "I-"

OCA-T-6, Part II

31	Note 21	Delete "the new single-piece First-Class" and insert "a "First-Class Mail" endorsement, followed by the numeric basic"
37	5	Delete "and"

37	6	Delete "cards"
42	4	Delete "93" and insert "89"
45	4	Delete "per year"
OCA-T-6, Part III		
53	Note 48	Delete "Id." and insert "USPS-T-24 (Miller) at 20."
59	Note 65	Delete the first "T-24" and insert "T24"
62	Note 70	After "LR-" insert "I-"
63	2	Delete "in the same manner as"
63	3	Delete "standard-size letter mail"

II. PURPOSE AND SCOPE OF TESTIMONY

This testimony examines three issues related to First-Class Mail: the institutional cost burden on First-Class Letter Mail, a new approach for setting the single-piece First-Class rate for letters, and the nonstandard surcharge for certain nonstandard mail. The testimony is divided into three parts.

In Part I, I propose that the current rate for First-Class Letters be maintained at 33 cents in order to mitigate the growing institutional cost burden on First-Class Letter Mail. During the past 12 years, First-Class Letter Mail has been carrying an increasing burden of the institutional costs of the Postal Service, and that burden has become more prominent in recent years. This conclusion is based upon an analysis of Postal Service data using several common measures of institutional cost. Moreover, the growth in institutional costs has occurred as the cost of First-Class Letter Mail has declined. Similarly, the institutional cost burden on First-Class Letter Mail has increased relative to the institutional cost burden on Standard (A) Regular Mail.

The institutional cost burden on First-Class Letter Mail has also grown relative to the institutional cost burden intended by the Commission, as expressed in several recent recommended decisions. As a result, First-Class Letter Mail has contributed $6.2 billion more than intended by the Commission to the institutional costs of the Postal Service since FY1988, and this additional revenue is expected to reach $11.2 billion through the test year. Mitigation of the institutional cost burden on First-Class Letter Mail should involve consideration of the additional contribution to institutional costs above that intended by the Commission.

In Part II, I propose that the Postal Service adopt a new approach for setting the single-piece First-Class rate for letters that would benefit both household and business mailers. The Postal Service appears to have adopted plans to adjust rates every two years, in response to the concerns of business mailers for smaller, more predictable rate changes. However, more frequent rate changes can be inconvenient to household and smaller-volume mailers. The approach I propose would accommodate the differing interests of household and business mailers.

Under my proposal, the single-piece First-Class ("SPFC") rate would be determined without regard to the "integer constraint." The rate paid by households, by contrast, would be set at a whole cent, as in the past. The SPFC integer rate would be set so that sufficient revenues would accumulate in a "reserve account" to permit the single-piece rate to remain the same for a period of two rate proceedings, a duration of approximately four years. In effect, the SPFC rate would be changed every other rate proceeding, with revenue generated during the first rate period covering any revenue deficiency in the second rate period. In this manner, household mailers would enjoy greater rate stability, while allowing business mailers smaller, more frequent and predictable rate adjustments.

Accommodating the differing interests of household and business mailers in this manner can be achieved while preserving Postal management's prerogatives with respect to rate changes, including the timing of the filing of rate cases and the effective date of new rates. It would also preserve the right of every participant to litigate any issue in every case. The only difference is that revenues generated in the first rate case period would permit the single-piece First-Class to remain in effect over two rate

PART I

I. THE INSTITUTIONAL COST BURDEN ON FIRST-CLASS LETTER MAIL IS INCREASING

First-Class Letter Mail has been carrying an increasing burden of the institutional costs of the Postal Service. This conclusion is based upon a review of Postal Service cost and revenue data over the past twelve years. Moreover, this trend, evident from an analysis of several common measures of institutional cost, has become even more prominent in recent years, and is expected to continue into the test year. Also, the continued growth in the burden on First-Class Letter Mail is evident by comparison with other subclasses of mail, most notably Standard (A) Regular.

A. Common Measures of Institutional Cost Show a High and Rising Burden Being Borne by First-Class Letter Mail

Several measures of institutional cost burden are commonly relied upon by the Commission and the Postal Service to analyze the relative institutional cost burden on various classes of mail over time.[1] The cost coverage is one commonly used measure.[2] Beginning with its opinion and recommended decision in Docket No. R87-1, the Commission introduced a "mark-up" index.[3] In recent years, the Postal Service has

[1] Institutional costs represent the amount of total costs remaining after subtracting costs that are directly "attributable" to each class or type of mail service.

[2] *See* PRC Op. R97-1, Appendix G, Schedule 1 at 1. The cost coverage, for example, is calculated by dividing revenues by attributable costs.

[3] *See* generally PRC Op. R87-1, Appendix G, Schedule 3, at 33. A mark up index is obtained by dividing the "mark-up" (the percentage by which the revenues exceed attributable costs) of a class or subclass by the total "mark-up" for all mail and special services.

Table 4
COMPARISON OF FIRST-CLASS LETTER MARK-UP INDEX TO RECOMMENDED AND AVERAGE MARK-UP INDICES

Mark-Up Index	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
First	1.256	1.230	1.277	1.276	1.293	1.289	1.226	1.169	1.206	1.311	1.384	1.439	1.469	1.422
Recom'd	1.200	1.200	1.200	1.235	1.235	1.235	1.235	1.310	1.310	1.310	1.310	1.308	1.308	1.308
Average	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263

Figure 4: Comparison of First-Class Letter Mark-Up Index to Recommended and Average

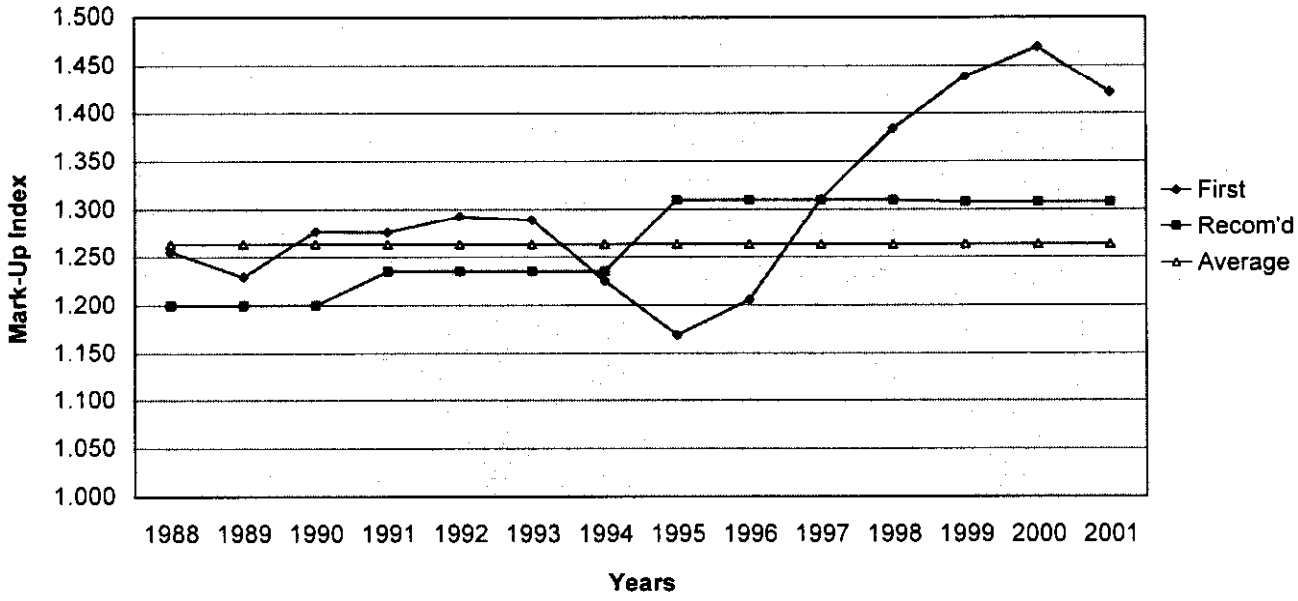


Table 5 shows the actual First-Class Letter cost coverage index compared to the recommended First-Class Letter cost coverage index, derived from the four Commission opinions issued during the period covered by this analysis. The average recommended First-Class cost coverage index is also calculated, and compared to the actual First-Class Letter cost coverage index. Figure 5 visually compares the data presented in Table 5 on the recommended and average recommended First-Class Letter cost coverage indices and the actual First-Class cost coverage index.

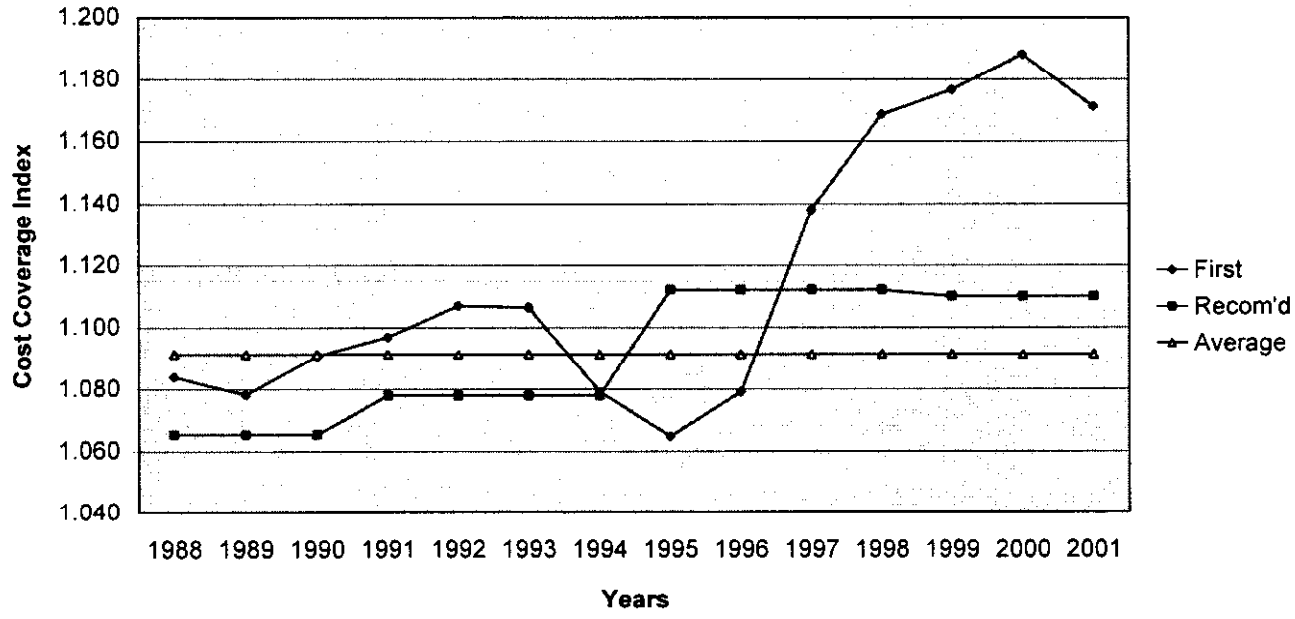
During the 12 year period, FY 1988 through FY 1999, the actual First-Class Letter cost coverage index is above the recommended index for all but two years. If the recommended First-Class Letter cost coverage index from Docket No. R97-1 is

1 extended through FY 2001, the actual First-Class Letter cost coverage index is also
2 expected to remain higher than the recommended index. By comparison to the
3 average First-Class Letter cost coverage index, the actual First-Class Letter cost
4 coverage index remains above the average index for six of the 12 years from FY 1988
5 through FY 1999. The actual First-Class Letter cost coverage index is also expected to
6 be higher than the average index through FY 2001.

Table 5
COMPARISON OF FIRST-CLASS LETTER COST COVERAGE INDEX TO RECOMMENDED AND AVERAGE INDICES

Cost Coverage Index	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
First	1.084	1.078	1.091	1.097	1.107	1.107	1.079	1.065	1.079	1.138	1.169	1.177	1.188	1.171
Recom'd	1.065	1.065	1.065	1.078	1.078	1.078	1.078	1.112	1.112	1.112	1.112	1.110	1.110	1.110
Average	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091

Figure 5: Comparison of First-Class Letter Cost Coverage Index to Recommended and Average



7 B. The Institutional Cost Burden on First-Class Letter Mail Is Increasing
8 Relative to the Institutional Cost Burden on Standard (A) Regular Mail

9 First-Class Letter Mail has long contributed more in absolute terms to the
10 institutional costs of the Postal Service than the next largest class of mail, Standard (A)

indices reveals a widening gap in the relative contributions by First-Class Letters and Standard (A) Regular mail.

Table 8 and accompanying Figure 8 compare the actual First-Class Letter and Standard (A) Regular mark-up indices to the Commission's recommended mark-up index for each subclass, and the average recommended index calculated for the four Commission opinions issued during the period covered by this analysis. The analysis for Table 8 for First-Class Letters is the same as presented with respect to Table 4. The actual First-Class Letter mark-up index roughly tracks, albeit somewhat higher, the recommended index until FY 1994, falling below the recommended index for three years. From FY 1995 through FY 1999, the actual First-Class Letter mark-up index increases, rising above the recommended index during the last three fiscal years. The actual First-Class Letter mark-up index follows a similar pattern vis-a-vis the average mark-up index. By contrast, the actual Standard (A) Regular mark-up index remains below the recommended index for all but five years, FY 1994 through FY 1998, and then returns below the recommended index in FY 1999. The actual Standard (A) Regular mark-up index follows the same pattern by comparison to the average mark-up index.

Table 8
COMPARISON OF FIRST-CLASS LETTER & STANDARD (A) REGULAR MARK-UP INDICES TO RECOMMENDED AND AVERAGE INDICES

Mark-Up Index	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
First	1.256	1.230	1.277	1.276	1.293	1.289	1.226	1.169	1.206	1.311	1.384	1.439	1.469	1.422
First, Rec.	1.200	1.200	1.200	1.235	1.235	1.235	1.235	1.310	1.310	1.310	1.310	1.308	1.308	1.308
First, Ave.	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263	1.263
Std (A)	0.649	0.788	0.761	0.858	0.794	0.901	1.072	1.080	1.110	1.003	0.904	0.828	0.745	0.777
Std (A), Rec.	0.840	0.840	0.840	0.941	0.941	0.941	0.941	0.899	0.899	0.899	0.899	0.949	0.949	0.949
Std (A), Ave.	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907	0.907

Figure 8: Comparison of First-Class Letter and Standard (A) Regular Mark-Up Indices to Recommended and Average

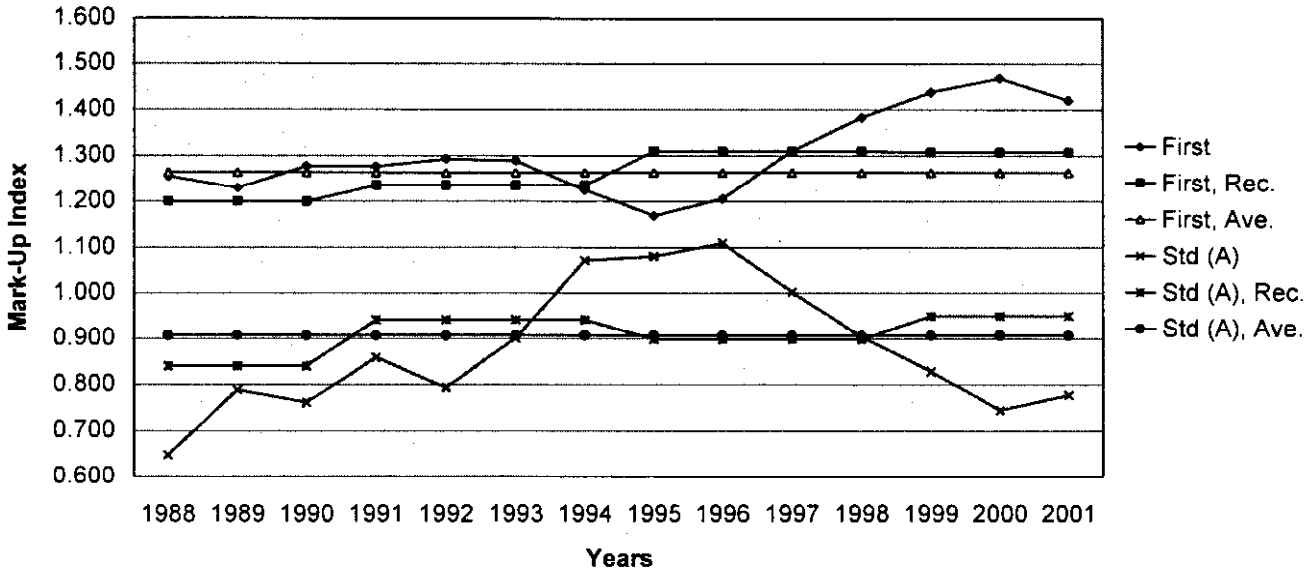


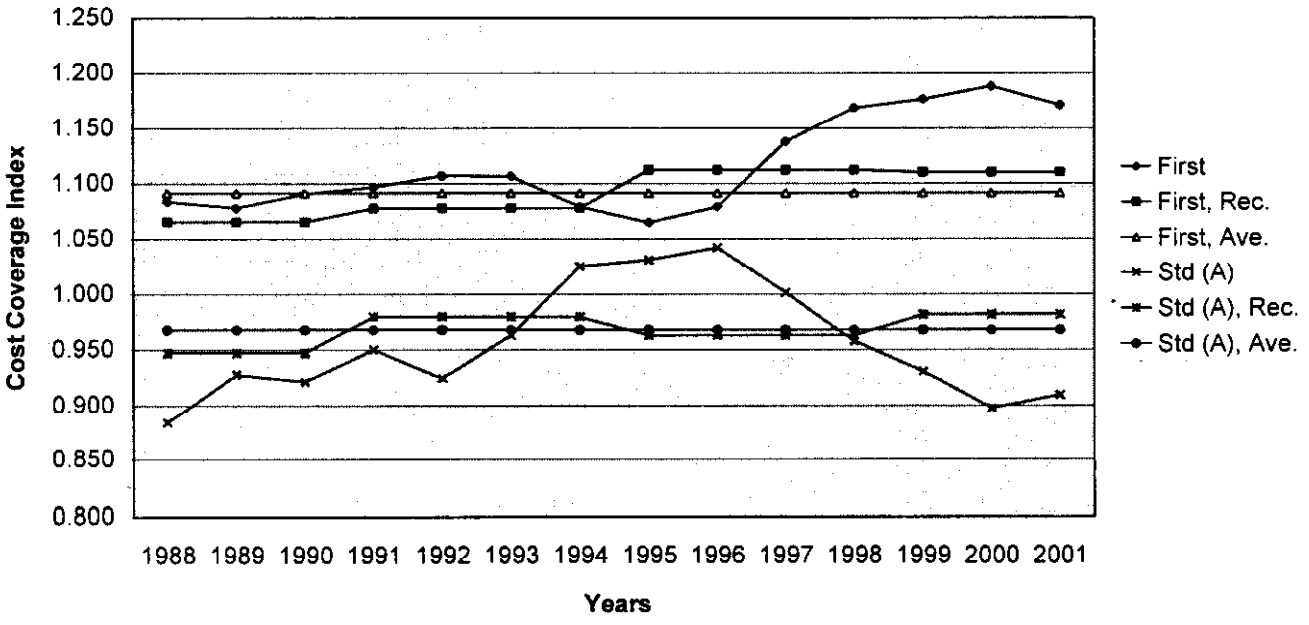
Table 9 and Figure 9 compare the actual First-Class Letter and Standard (A) Regular cost coverage indices against the Commission's recommended cost coverage index, and the average recommended index calculated for the four Commission opinions. The analysis of Table 9 for First-Class Letters is the same with respect to Table 5. Table 9 shows the actual First-Class Letter cost coverage index falls below the recommended index in only two years, FY 1995 and FY 1996, during the 12 years from FY 1988 through FY 1999. From FY 1995, it increases, rising above the recommended index during the last three years. The actual First-Class Letter cost coverage index is above the average index during six of the 12 year period, FY 1988 through FY 1999, and rises high above the average in the last three years. By contrast,

Table 9 shows the actual Standard (A) Regular cost coverage index below the recommended index for all but four years from FY 1988 through FY 1999. The Standard (A) Regular cost coverage index follows the same pattern when compared to the average cost coverage index. Again, the widening trend is most apparent in the latter years, as the Standard (A) Regular cost coverage index declines from the recommended and average indices.

Table 9
COMPARISON OF FIRST-CLASS LETTER & STANDARD (A) REGULAR COST COVERAGE INDICES TO RECOMMENDED AND AVERAGE

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
First	1.084	1.078	1.091	1.097	1.107	1.107	1.079	1.065	1.079	1.138	1.169	1.177	1.188	1.171
First, Rec.	1.065	1.065	1.065	1.078	1.078	1.078	1.078	1.112	1.112	1.112	1.112	1.110	1.110	1.110
First, Ave.	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091	1.091
Std (A)	0.884	0.928	0.922	0.950	0.925	0.963	1.025	1.031	1.042	1.001	0.958	0.931	0.898	0.910
Std (A), Rec.	0.947	0.947	0.947	0.980	0.980	0.980	0.980	0.963	0.963	0.963	0.963	0.982	0.982	0.982
Std (A), Ave.	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968	0.968

Figure 9: Comparison of First-Class Letter and Standard (A) Regular Cost Coverage Indices to Recommended and Average



II. THE INCREASING FIRST-CLASS LETTER INSTITUTIONAL COST BURDEN HAS RESULTED IN FIRST-CLASS LETTER MAIL CONTRIBUTING REVENUES IN EXCESS OF THE AMOUNT INTENDED BY THE COMMISSION

That the institutional cost burden on First-Class Letter Mail has risen from FY 1988 through FY 1999, and at an accelerating rate in recent years, has produced substantial additional revenues for the Postal Service. More significantly, the additional revenue contributed by First-Class Letter Mail to the Postal Service's institutional costs has exceeded the revenue contribution intended by the Commission.

In its Opinion and Recommended Decision in Docket No. R94-1, the Commission suggested the importance it placed on the role of cost coverages and mark-up indices in setting rates. There, the Commission expressed the belief that "setting target coverages [for First Class and third class mail] reasonably near the systemwide average represents the best accommodation of the section 3622(b) factors."[9] Moreover, the Commission concluded that, in the determination of rates, the mark-up relationships recommended in Docket No. R90-1 were a better guide to sound ratemaking than the prior rate relationships, for purposes of the section 3622(b) factors.[10]

Table 10 presents the systemwide average cost coverage for all mail classes and services, and the cost coverage and mark-up index for First-Class Letters, recommended by the Commission in several recent opinions. Using the systemwide average cost coverage recommended by the Commission as a "benchmark," it would

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9 PRC Op. R94-1, ¶4041. *See also* PRC Op. MC95-1, ¶1019.

10 *Id.*, ¶4043.

FY 1999. This excess contribution has accelerated in recent years. Moreover, the amount of net additional revenues to be contributed from FY 1988 through the test year is expected to reach $11.2 billion.

Table 11 summarizes the annual contribution of First-Class Letter Mail to the institutional costs of the Postal Service, both greater than and less than the amount intended by the Commission, based upon the average First-Class Letters mark-up index benchmark. The amounts reported in Table 11 take into account the generally higher level of costs attributed by the Commission to mail classes than that of the Postal Service.[12]

Table 11
ANNUAL CONTRIBUTION TO INSTITUTIONAL COSTS BY FIRST-CLASS LETTERS
IN EXCESS OF THE AVERAGE FIRST-CLASS MARK-UP INDEX
(amounts in millions)

												Estimated		Total	
1988	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	***2000***	***2001***	**1988-99**	**1988-2001**
$116	$555	$908	$522	$698	$685	$117	($747)	($354)	$599	$1,769	$1,964	$2,682	$1,729	$6,833	$11,245

[12] The specific adjustment factors and use of the Commission's version of the CRA that produce the higher level of attributable costs can be found in Table B, located in Part I of OCA-LR-I-3.

The response of the Postal Service to these differing interests is to propose rate adjustments on a more frequent and predictable basis.

A. Households Prefer Longer Periods of a Stable Single-Piece First-Class Rate

As less frequent users of First-Class Mail, households have an interest in preserving the single-piece First-Class ("SPFC") rate as long as possible.[20] Maintaining a stable SPFC rate is a matter of convenience and economy, and can minimize confusion, for household mailers.

2. Longer periods of rate stability reduce inconvenience for household mailers

Changes in the SPFC rate can be inconvenient to household mailers. A change in the single-piece rate is accompanied by new postage stamps related to First-Class. New stamps are issued for both the new single-piece rate and the difference between the old and new single-piece rates, *e.g.*, the "make-up" stamp.[21] The rate change requires the purchase of the new denomination of stamps that would otherwise be unnecessary in the absence of the rate change. In the past, retail post offices have often been crowded by household (and smaller-volume) mailers seeking to obtain the

[20] Some non-household smaller mailers whose volumes do not qualify for worksharing discounts, or whose volumes while sufficient, mail infrequently, may also view a more stable single-piece first-class rate favorably.

[21] Traditionally, the postal service has printed new first-class stamps bearing alphabetic rather than numeric denominations in advance of the commission's opinion, assigning a value once the decisions of commission and board of governors is known. This practice is being discontinued. After Docket No. R2000-1, the Postal Service will issue stamps bearing a "First-Class Mail" endorsement, followed by the numeric basic rate. Tr. 21/9104-05 (USPS Response to OCA/USPS-62).

single-piece integer rate and the discounted rates for presorted and automation mail must be changed.

1. The single-piece First-Class rate should be changed every other rate proceeding

As envisioned here, the single-piece First-Class ("SPFC") rate for letters would be established in an initial rate proceeding (such as Docket No. R2000-1), and remain in effect during the period following the next rate proceeding. The First-Class rate would be determined in the same manner as in past proceedings, including compliance with the test year break-even requirement, with one exception. In each rate proceeding, rates for First-Class Letters, based upon an appropriate mark-up for each subclass, would be set without regard to the "integer constraint." *The rate actually paid by households, by contrast, would be set at a whole cent.* This "integer rate" would remain the same for the time period covered by the two rate proceedings, a duration of approximately four years, assuming rate cases are filed every two years. The determination of First-Class rates other than single-piece would be based on the "calculated" non-integer rate in each rate proceeding.[29]

2. The difference between the "whole cent" integer rate and the non-integer "calculated" rate would be used to maintain the single-piece rate during the period following the second rate case

The SPFC integer rate established during the first rate proceeding would be selected so as to generate revenues greater than if the calculated non-integer rate were used for SPFC mail. The additional revenues generated would permit maintenance of

[29] For purposes of this testimony, I refer to estimation of costs and application of the pricing criteria as the "calculated" single-piece non-integer rate, as distinguished from the integer rate.

less than the calculated single-piece rate and the effective workshare discount becomes 5.2 cents, there is an 1.8 percent increase in SPFC volume, and a 2.2 percent decrease in workshare volume. Total First-Class volume would decrease by 54 million in 2003 and by 89 million in 2004. Over the entire four year period, total First-Class volume would decrease by 89 million. The resulting changes in SPFC and workshare volume can be seen in Part C of Table 14.

Table 14
ILLUSTRATIVE CHANGE IN ESTIMATED SINGLE-PIECE AND WORKSHARE VOLUME DURING TWO RATE CASES
(volumes and amounts in millions, except rates)

PART A: SPFC INTEGER RATE

SPFC Integer	Year 2000		*Year 2001*		Year 2002		*Year 2003*		Year 2004		2001-2004
Rate	Rate	Volume	Rate	Volume	Rate	Volume	Rate	Volume	Rate	Volume	Total
SPFC	$0.33	53,378	$0.34	51,727	$0.34	51,023	$0.34	52,846	$0.34	50,137	205,733
Workshare	$0.27	45,253	$0.270	46,883	$0.270	49,024	$0.288	45,526	$0.288	44,899	186,332

PART B: CALCULATED SINGLE-PIECE NON-INTEGER RATE

Calculated Non-	Year 2000		*Year 2001*		Year 2002		*Year 2003*		Year 2004		2001-2004
Integer Rate	Rate	Volume	Rate	Volume	Rate	Volume	Rate	Volume	Rate	Volume	Total
Single-Piece	$0.33	53,378	$0.330	53,378	$0.330	52,651	$0.348	51,898	$0.348	49,238	207,164
Workshare	$0.27	45,253	$0.270	45,253	$0.270	47,320	$0.288	46,529	$0.288	45,887	184,990

PART C: CHANGE IN VOLUME AND PERCENT BETWEEN SPFC AND WORKSHARE

	Year 2000		*Year 2001*		Year 2002		*Year 2003*		Year 2004		2001-2004	
	Volume	Percent	Volume	Percent	Volume	Percent	Volume	Percent	Volume	Percent	Volume	Percent
SPFC			(1,651)	-3.2%	(1,628)	-3.2%	948	1.8%	899	1.8%	(1,431)	-0.70%
Workshare			1,629	3.5%	1,704	3.5%	(1,002)	-2.2%	(989)	-2.2%	1,342	0.72%
Net Change			(21)		75		(54)		(89)		(89)	

2. The shifting of volumes between single-piece and workshare results from changes in the "calculated" single-piece non-integer rate and the size of the workshare discount

Mail volumes shifting between single-piece and workshare will alternately increase and decrease with changes in the workshare rate relative to changes in calculated single-piece rate and SPFC rate. A change in the size of the workshare discount compared to the SPFC rate shifts volumes to and from SPFC and workshare

the price difference is -2 cents, the largest net percentage change in total First-Class volume is negligible at well under one percent, *i.e.,* 0.103 percent.

Nevertheless, the shift in volumes to and from SPFC and workshare would have some impact on Postal Service operations. As much as 3.4 billion pieces could shift between the two. However, such shifts can be anticipated and planned for, and are likely to be smaller and more gradual than seasonal fluctuations in mail volume.

With respect to presort mailers, changes in the size of the workshare discount will create cycles causing volumes and revenues to rise and fall. When the difference between the SPFC rate and the calculated single-piece rate is positive, mailers will see higher volumes and revenues, and potentially higher profits. When the difference between the SPFC rate and calculated single-piece rate is negative, however, they will operate with lower volumes and revenues and potentially lower profits.

As proposed here, the first cycle would occur when the difference between SPFC and calculated rate is positive, resulting in a period of higher workshare volumes and mailer revenues. This, in turn, should permit presort mailers to establish a financial base with which to offset lower volumes following the second rate case. Over the entire four year period, these cycles could induce greater efficiency, as some firms invest in new capital equipment during the period of higher volume in order to compete during the period of lower volumes.

C. Adjusting the Single-Piece Rate Every Other Rate Proceeding Should be Circumscribed Under Certain Circumstances

Holding the SPFC rate constant for a period of two rate cases creates a risk that the SPFC Reserve Account may prove insufficient to cover the likely revenue deficiency

Sorters ("BCSs") that read letter mail with barcodes applied by Postal Service OCRs or mailers, including Mail Processing Bar Code Sorters ("MPBCSs") Delivery Bar Code Sorters ("DBCSs") and Carrier Sequence Bar Code Sorters ("CSBCSs") that can sort barcoded mail into the delivery sequence followed by the carrier.

The increasing sophistication of automated equipment permits certain nonstandard letter mail, previously unsuited for mechanized processing, to be processed on the automated equipment. In the case of low aspect ratio letter mail, there is no feature of the AFCS (or other mail processing equipment) that is designed to cull out such mail.[47] The result is that some "mail pieces with nonstandard aspect ratios will be processed correctly on the AFCS and will therefore be routed to downstream automation operations."[48] In fact, it has been shown that some seasonal greetings that are square in shape (aspect ratio of 1:1) are processed either partially, or entirely, on automated equipment.[49]

B. The Commission's Opinion in Docket No. R97-1 Found Important Reasons To Doubt the Basis for the Nonstandard Surcharge

In its Opinion and Recommended Decision in Docket No. R97-1, the Commission rejected the Postal Service's proposed 45 percent increase in the nonstandard surcharge for single-piece mail, from 11 cents to 16 cents, and the 120

[47] Tr. 5/2078.

[48] USPS-T-24 (Miller) at 20.

[49] *See* Docket No. R97-1, Testimony of NDMS witness Haldi (NDMS-T-1), at 11-12, and Library Reference LR-NDMS-1.

higher percentage of letters will be forwarded for further processing on automated equipment.

For purposes of estimating the volume of low aspect ratio letters suitable for automated mail processing, I assume that 50 percent of square letters, and 100 percent of letters having an aspect ratio of 1:1.3, will be forwarded to downstream automated processing operations. However, the Postal Service does not know the true percentage of low aspect ratio letters forwarded to automated processing.[65] Therefore, I have assumed that the probability of additional processing beyond the AFCS operation increases in a linear fashion as the aspect ratio of a letter increases.[66] I use selected percentages between 50 percent and 100 percent to allocate low aspect ratio letter volumes between automated and manual processing in the mail processing cost model in order to calculate a range of mail processing unit costs for low aspect ratio mail.

Table 16 presents the linear probabilities (and, therefore, the percentages) of letter mail by aspect ratio that I assume will be advanced for further processing on automated equipment.

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[65] Tr. 7/3132 (OCA/USPS-T24-5(f)). *See also* USPS-T-24 at 21.

[66] Other probability distributions could, of course, be assumed. The probabilities of acceptance for further automated processing could be distributed exponentially; that is, probabilities would rise more dramatically as the aspect ratio approaches 1:1.3. Conversely, the probabilities could be distributed in a logarithmic fashion, resulting in a more rapid rise nearer the aspect ratio 1:1.

ratios shown in Table 16. The derivation of this range of mail processing unit cost requires several adjustments in the manual cost model. As presented by witness Miller, all 10,000 mailpieces are entered at the "Outgoing Primary Manual" operation, consistent with his assumption of 100 percent manual processing. Because the true percentage of low aspect ratio letter volume receiving automated processing is unknown, I enter 100 percent, 75 percent, and 50 percent of the 10,000 mail pieces at the "Outgoing RCR." The remaining 0 percent, 25 percent, and 50 percent, respectively, of mailpieces are entered at the "Outgoing Primary Manual" operation. Moreover, the rates for "acceptance" and "upgrade" are multiplied by the probabilities associated with each aspect ratio. These changes produce the range of unit costs presented in Table 17. The specific adjustments to the manual model used to develop the unit costs for low aspect ratio letter mail are presented in my workpapers.[70]

[70] Electronic copies of the spreadsheets containing the "adjusted" manual processing model are available in OCA-LR-I-3, Part III.

Table 17
UNIT COSTS FOR LOW ASPECT RATIO NONSTANDARD LETTER MAIL FOR SELECTED VOLUMES ALLOCATED TO AUTOMATED MAIL PROCESSING

Probability (Percent)	Aspect Ratio	Percent of Volume Allocated to Automated and Manual Processing		
		100 / 0	75 / 25	50 / 50
		Unit Cost	Unit Cost	Unit Cost
[1]	[2]	[3]	[4]	[5]
0.500	1	19.348	20.496	21.644
0.521	1.0125	19.177	20.368	21.559
0.542	1.025	19.000	20.235	21.470
0.563	1.0375	18.815	20.097	21.378
0.583	1.05	18.633	19.960	21.287
0.604	1.0625	18.435	19.811	21.188
0.625	1.075	18.228	19.656	21.085
0.646	1.0875	18.014	19.496	20.977
0.667	1.1	17.791	19.329	20.866
0.687	1.1125	17.571	19.163	20.756
0.708	1.125	17.330	18.983	20.635
0.729	1.1375	17.080	18.795	20.510
0.750	1.15	16.820	18.600	20.380
0.771	1.1625	16.549	18.397	20.245
0.792	1.175	16.268	18.186	20.104
0.812	1.1875	15.989	17.977	19.965
0.833	1.2	15.685	17.749	19.813
0.854	1.2125	15.368	17.511	19.655
0.875	1.225	15.039	17.264	19.490
0.896	1.2375	14.696	17.007	19.319
0.917	1.25	14.340	16.740	19.140
0.937	1.2625	13.987	16.475	18.964
0.958	1.275	13.601	16.186	18.771
0.979	1.2875	13.200	15.885	18.570
1.000	1.3	12.783	15.572	18.362

In the case of letters having an aspect ratio of 1:1.3 (*e.g.*, standard-size letter mail) that are processed entirely on automated equipment, the model mail processing unit cost is 12.783 cents. This unit cost is not significantly different from the average test year mail processing unit cost of

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

Emmett Rand Costich

EMMETT RAND COSTICH

Washington, D.C. 20268-0001
June 29, 2000