

SCOPE OF ABA&NAPM-ST-1, REVISED

Commission P.O.R. No. R-2000-1\127, dated August 18, 2000, provides the opportunity for ABA&NAPM to revise my supplemental testimony filed on August 14th, 2000, to respond to revised cost avoidance data submitted by the Postal Service pursuant to Commission P.O.R. No. R-2000-1\116. This revised testimony consists primarily of a new Section II., which replaces in its entirety Section II. in my original supplemental testimony.

For my revised Section II., I would like to have had the “redo” of the Postal Service’s analyses using “an IOCS methodology consistent with the FY 1998 approach” as discussed in its August 18th “Response of the United States Postal Service to Presiding Officer’s Ruling No. R2000-1\116”. However, in that response, the Postal Service said this “redo” will only be available “ideally” later this week.

The other changes are as follows. Table One in the supplemental testimony is unchanged but is now Table Four in the revised supplemental testimony. Some other table number headings have changed as a result. Exhibit A tables have changed as a result of the new cost avoidance data replacing the estimates in the August 14th supplemental testimony. Some very minor changes were made to Section IV., notably to the footnote accompanying Table Four. These were purely for clarification, and do not alter in any way the substance of that section.

Finally, Section V. is labeled as an errata page, not a revision per se. This section was drafted before receipt of an interrogatory response, which altered the scope of that section. The changes were inadvertently omitted from the final draft of August 14th, 2000.

EXECUTIVE SUMMARY

- Given increasing problems in this case with USPS measurements of cost avoidance in First Class Mail for presorting as distinct from prebarcoding, the best inference that can be drawn about cost avoidance for First Class workshared letters based on the Postal Service's supplementary filings is that they have not changed, or have increased marginally.
- Accordingly, there is nothing in the stream of supplementary filings made by the Postal Service through August 21, 2000 which justifies making any change to the recommended rates and discounts ABA&NAPM made in their direct case of May 22, 2000 (ABA&NAPM-T-1).
- ABA&NAPM's proposed P-rate is an appropriate way of controlling mail processing costs and extending the benefits of automation to the general public in the best and simplest manner possible. The Postal Service's "breakthrough productivity" initiatives contained in its Supplemental Testimony and targeted toward single piece mail are an inappropriate competitive response to this P-rate proposal.
- Absent biased cost reduction efforts and "breakthrough productivity" efforts which treat First Class workshared mail as an afterthought, balanced cost reduction and breakthrough productivity initiatives which target First Class workshared mail as well as single piece and Standard A Commercial mail can substantially reduce the test year deficiency accompanying the Postal Service's supplementary testimony. (See my Technical Appendix BCR.2 filed herewith.)
- While the sources of cost increases in the Postal Service's supplementary testimony appear to be across-the-board factors, in the roll forward model to test year 2001 they have added about \$300 million to First Class Mail costs and only about one-tenth as much to Standard A Commercial mail costs, indicating that these costs were not applied in an across-the-board manner.
- Nonetheless, to finance my proposed rates and discounts, in Technical Appendix BCR.2 I propose a smaller additional revenue requirement for Standard A Commercial subclasses than in my original testimony, accounting for the fact that the use of actual 1999 data lowers volume variable costs for Standard A Commercial regular mail.

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EXHIBIT, WORKPAPER AND TECHNICAL APPENDICES

Exhibit A

Revised Cost Avoidance for First Class Workshared Mail
based on All Cost Change Factors

Workpaper 1

Background Tables for Supplementary Testimony
(unchanged from August 14, 2000)

Technical Appendix BCR.1
(unchanged from August 14, 2000)

Technical Appendix BCR.2
(unchanged from August 14, 2000)

1 I. Purpose of Supplementary Testimony
2

3 This testimony responds to the Postal Service’s revisions of its case submitted pursuant to
4 Commission Order No. 1294 (hereafter “1294 revisions”), and shows how they affect, or do
5 not affect, areas of concern to ABA&NAPM: (1) cost avoidance for First Class workshared
6 letters; (2) extra ounce costs for First Class presort letters; (3) equity and fairness with
7 Standard A Commercial mail in a variety of areas.¹
8

9 The essential purpose of my testimony is to explain why no changes in the worksharing
10 discounts and rates recommended in my initial testimony are warranted as a result of the 1294
11 revisions made by the Postal Service. This supplementary testimony: (1) clarifies what the
12 1294 revisions and supporting material say and do not say about cost avoidance; (2) rebutts
13 and reworks what the 1294 revisions or supporting material say about “breakthrough
14 productivity”; and (3) revises in one instance only the analysis in my direct testimony, that
15 concerning the proposed financing of my rate and discount recommendations.
16

17 The P-rate proposal in my direct testimony is unaffected by the Postal Service’s 1294
18 revisions. It remains the best and simplest method of allowing the general public to participate
19 in worksharing savings. To the extent this concept has stimulated a Postal Service response in
20 “breakthrough productivity” in the 1294 revisions for single piece mail, the P rate, indeed,
21 demonstrates the value of competition generally for the Postal Service in controlling mail
22 processing costs, if not the inappropriate and biased allocation of its cost reductions as
23 discussed in Section IV. of this testimony.
24

¹ The term “1294 revisions” rather than “update” is used here to refer to the responses made to Commission Order No. 1294 because the word update conveys a sense of impartiality and objectivity in the exercise that I do not believe extends beyond the changes to the base year. In its Motion to Reconsider Order No. 1294 dated June 9, 2000, ABA&NAPM expressed a concern that other cost factors could be developed in a highly subjective, even biased way, and that very subjectivity and bias are revealed in USPS-ST-44 and supporting materials.

1 II. Test Year Cost Avoidance for First Class Workshared Letters Is on Balance
2 Unchanged, or Increased Slightly, as a Result of the Postal Service's 1294 Revisions
3

4 A. The 1294 Revisions Essentially Re-Allocate Cost Avoidance at the Margin
5 Among Rate Categories
6

7 In Table One, below, I have calculated new cost avoidances using the same refined
8 worksharing related cost pool methodology I used in ABA&NAPM-T-1. For comparison
9 purposes, I have also reproduced my original cost avoidance estimates as found in that direct
10 testimony.

11
12 Cost avoidance for a basic automation letter in First Class has increased by about one-tenth of
13 a cent, 0.093 cents compared to the Postal Service's original filing. Most of this change is due
14 to falling mail processing costs for the basic automation category rather than any change in
15 the (single piece) metered letter benchmark.² Cost avoidance for both the automation 3-digit
16 presort and 5-digit presort rate categories has decreased by about one-tenth of a cent
17 compared to the Postal Service's original filing, by -0.066 cents for a 3-digit letter and by
18 -0.083 cents for a 5-digit letter.

19
20 Given what I consider to be growing problems with Postal Service cost avoidance measures
21 for the presort part of worksharing activities, as discussed below in Section II. B., a more
22 useful indication of the change in cost avoidance may be made by comparing the change in
23 the (single piece) metered mail benchmark with the change in the CRA aggregate before the
24 modeled cost methodology is applied to develop specific rate categories at varying levels of
25 presortation. This can be done for mail processing. In the Postal Service's original filing using
26 my refined methodology, the difference in unit mail processing costs in cents between a
27 metered letter and automation non-carrier route presort letters was 10.601 – 4.005, or 6.596
28 cents. In its revised filing using my refined methodology, the difference is 10.465 – 3.711, or
29 6.754 cents. This indicates an increase in mail processing cost avoidance of 0.158 cents

² Thus, even if mail processing costs for various categories of First Class single piece mail are falling, they continue to fall faster for the prebarcoded mail, and it is a consideration of both factors, not just the former, on which the Commission must develop discounts based on cost avoidance.

1 between the original and revised USPS cases for the three rate categories combined in Table
 2 One, before the application of the cost models. The change is being driven mainly by the
 3 automation rate categories, not by the (single piece) metered mail benchmark.

4
5
6 **Table One**

7
8 ABA&NAPM Original and Revised Cost Avoidance Estimates
9

| | <u>MP</u> | <u>D</u> | <u>MP + D</u> | <u>Cost Avoidance</u> |
|---------------------|-----------|----------|---------------|-----------------------|
| <u>Original</u> | | | | |
| First Class Letters | | | | |
| Metered | 10.601 | 5.479 | 16.080 | ----- |
| Basic Automation | 5.186 | 4.319 | 9.505 | 6.575 |
| 3D Auto | 4.224 | 4.196 | 8.420 | 1.085 |
| 5D Auto | 3.053 | 3.997 | 7.050 | 1.370 |
| <u>Revised</u> | | | | |
| First Class Letters | | | | |
| Metered | 10.465 | 5.410 | 15.875 | ----- |
| Basic Automation | 4.899 | 4.308 | 9.207 | 6.668 |
| 3D Auto | 3.997 | 4.191 | 8.188 | 1.019 |
| 5D Auto | 2.899 | 4.002 | 6.901 | 1.287 |

10
11 Source: ABA&NAPM-T-1, Exhibit A, Tables A1, A2, and A3; and Workpaper 1, page 11;
12 ABA&NAPM-ST-1, Exhibit A; USPS LR-I-95, Table 5

13
14
15
16 One could argue based on the discussion above that my discount and rate recommendations
17 should be altered slightly, by increasing the discount for basic automation by one-tenth of a
18 cent, and reducing it by one-tenth of a cent for automation 3-digit presort and 5-digit presort
19 letters. However, I do not propose to do so for reasons stated below in Section II. B. having to
20 do with increasing problems in measuring the cost avoidance associated with presortation, as
21 distinct from prebarcoding, for First Class Mail.

1 My recommendations remain as follows: (1) 27.4 cent rate for a basic automation letter; (2)
2 26.2 cent rate for a 3-digit presort automated letter; and (3) 24.5 cent rate for a 5-digit presort
3 automated letter. Based on Table One cost avoidances, original and revised, they reflect
4 discounts from the Service's 34 cent single piece rate proposal of 6.6 cents for a basic
5 automation letter, an additional 1.2 cents for a 3-digit presort automated letter, and a further
6 1.7 cents for a 5-digit presort automated letter.

7
8

9 B. As the 3,321% Change in Cost Avoidance for Non-Automation Presort in the
10 1294 Revisions Indicates, Accuracy and Credibility in the Postal Service's
11 Costing Methodologies and Models for the Presort Aspect of Worksharing in
12 First Class Generally are Increasingly Suspect
13

14 There appear to be so many problems raised in this case with cost, and cost avoidance,
15 estimation in general for First Class nonautomation presort letters, that it is not clear how
16 meaningful the Postal service's revised number is or what if any importance can be attached
17 to it for purposes of re-estimating cost avoidances.³ If we are to believe the Postal Service the
18 value of presorting a nonautomation letter between the original and revised cases has fallen
19 from about one-tenth of a cent to a negative three cents. This percentage change in the
20 measure of cost avoidance is over 3,300.⁴

³ See, for example, ABA&NAPM-T-1, page 5, lines 16-18. Indicative of the continuing confusion surrounding non-automation presort costs in this case is Commissioner Le Blanc's observation during oral cross examination of USPS witness Patelunas that the 1294 revision summary page for First Class letters worksharing discounts shows negative mail processing cost avoidance for non-automated presort letters. (Tr. at Vol. 35, page 16,802, line 23). This data is clearly flawed, as intimated by the Postal Service itself in its August 18th "Response of the United States Postal Service to Presiding Officer's Ruling No. R2000-1\116.

⁴ The same erratic behavior between the USPS original and revised cases for non-automation presort costs carries over beyond First Class Mail, and worksharing cost avoidances therein, to Standard A Commercial Regular mail. Of course, since nonautomation presort, and not BMM, is the official benchmark for Standard A Commercial regular, the much higher revised costs of that benchmark show up as substantial increases of several cents in the cost avoidance for basic automation and automation 3-digit presort mail in Standard A Commercial Regular. It is just not credible to argue that on the one hand the cost avoidance for a First Class automation 3-digit presort letter has declined by almost a tenth of a cent between the USPS original and revised cases, while it has increased by almost four cents for its Standard A Commercial Regular counterpart, absent revised delivery cost data for the advertising mail.

1 In my estimation, this problem is symptomatic of a broader modeling problem in costing the
2 value of presortation in First Class as distinct from the value of barcoding. If we are to believe
3 the USPS modeled costs using either the Miller cost pool methodology or my refined cost
4 pool methodology, the value of presortation alone at whatever level for First Class Mail has
5 dropped. It is now in substantially negative territory for non-automation presort, and has
6 dropped by about a tenth of a cent for finer levels of presortation for automated mail, as
7 discussed in Section II. A. above.

8
9 Contrast this with what is being said and measured about the value of presortation for
10 advertising mail. The cost avoidance comparisons here are not exact as the Postal Service has
11 evidently not updated unit delivery costs for Standard A mail, but the issue of presortation
12 pertains mainly to mail processing. For Standard A commercial Regular mail the value of
13 presortation has unambiguously gone up between the original and revised cases. The cost
14 avoidance for presorting such letters to 3/5 digits instead of the basic presort has risen from
15 1.751 cents to 2.508 cents. How can cost avoidance for finer levels of presortation be
16 increasing for Standard A commercial Regular mail, and falling for First Class workshared
17 mail?⁵

18
19 Given these apparent problems with the measurement of the value of presortation in First
20 Class Mail across the board, and for automation rate categories in the Standard A commercial
21 Regular modeled costs as well, I do not believe the increased cost avoidance apparent from
22 the First Class CRA aggregate “automation non-carrier route presort” has been correctly
23 distributed between basic automation letters and letters with finer degrees of presortation. For
24 that reason, I have relied more heavily on my original measures of cost avoidance in setting
25 my rate and discount recommendations above, rather than my revised measures.

⁵ The revised data for Standard A commercial Regular mail in LR-I-467, dated 8/17/2000, do show reduced cost avoidance between automated letters presorted to 5 digits versus 3 digits. They also show increased cost avoidance of several cents for Standard A commercial Regular basic automation and automation 3-digit presort mail, largely because nonautomated presort costs that are the benchmarks have risen substantially between the original and revised cases, according to Postal Service data. In my judgment, this indicates similar problems with modeled costs for automation rate categories as those which I believe exist in First Class. These contradictions notwithstanding, the purest test of the change in cost avoidance for presortation as a distinct worksharing activity appears to me to be the one made in the text above, not in the caveats in this footnote.

1 III. The 1294 Revisions Result in Cost Increases for First Class Mail Grossly in Excess of
2 Changes from the Use of Actual 1999 Data, Indicating that Other Cost Adjustment
3 Factors Were Subjectively Skewed Against First Class Mailers Since the Sources of
4 Such Other Cost Factors Are Across-the-Board
5

6 We do not know what the test year impact of changes in the base year is because the Postal
7 Service did not present its revised case in a way that would enable this to be known, but
8 ceteris paribus, the test year percentage changes should not be that different than those noted
9 in the first column of Table Two for base year 1999. In USPS-ST-44, witness Patelunas
10 summarizes “other cost change factors” beyond revision of the base year to reflect actual
11 FY99 CRA data that are incorporated into his roll forward model. The most striking aspect of
12 this discussion is that those factors which increase costs appear to be areas where costs should
13 increase across-the-board, and not cause material changes among relative costs between
14 subclasses as does the use of actual versus estimated FY1999 CRA data.⁶
15

16 If these across-the-board cost increases are in fact allocated across-the-board, the percentage
17 changes in column 3 of Table Two should approximate those in column 1. In fact, however,
18 the percentage changes are very different in column 3, indicating that other cost change
19 factors have not been allocated across-the-board in the 1294 revisions.
20

21 In particular, First Class Mail costs barely change as a result of the change in base year,
22 whereas the net impact of other cost change factors introduced into the test year 1294
23 revisions in toto is about a \$300 million increase. By contrast, for both commercial Standard
24 A subclasses combined, the change as a result of revising the base year is substantial,
25 lowering FY99 costs by -\$181.3 million. The net impact on Standard A Commercial
26 subclasses of other cost changes introduced into the test year 1294 revisions is about a \$30
27 million increase as the revised and original cases show a total cost difference of about -\$153.6
28 million, smaller than the impact of the revised base year alone. In summary, the impact of

⁶ These factors include higher inflation in non-personnel costs, notably energy prices, higher COLAs for bargaining units in FY2000, increases in the ECI which impact one labor agreement in TY2001. Mail volume changes, non-volume workload changes and additional workday effects appear to be marginal according to USPS-ST-44 at page 4.

1 other cost change factors is to increase First Class Mail costs in the 1294 revisions by about
2 ten times the amount that Standard A Commercial costs are increased.

3
4
5 **Table Two**

6 **USPS Changes to Costs from Base Year Changes and All Cost Factor Changes**

7
8

| | FY1999 | | TY2001 | |
|------------------------|-------------------|--------------------|-------------------|--------------------|
| | USPS Estimate vs. | | USPS Original vs. | |
| | Actual Data | | 1294 Revisions | |
| | <u>Percentage</u> | <u>\$ Millions</u> | <u>Percentage</u> | <u>\$ Millions</u> |
| | [1] | [2] | [3] | [4] |
| First Class Mail: | | | | |
| Total Letters Subclass | + 0.03% | + \$4.6 | + 1.64% | + \$301.4 |
| Standard A Commercial: | | | | |
| Regular Subclass | - 4.64% | - \$284.3 | - 4.56% | - \$311.2 |
| ECR Subclass | + 4.62% | + \$103.1 | + 6.37% | + \$157.6 |
| Total Commercial | NA | - \$181.3 | - 1.65% | - \$153.6 |

9
10 Sources: Postal Rate Commission, NOI #2, Attachment 1, page 1 of 1; ABA&NAPM-ST-1,
11 Workpaper 1, Table 2.

12
13
14
15 Several conclusions may be drawn. First, even allowing for the change in relative costs due to
16 the use of actual 1999 data, the 1294 revisions do not impact costs across the board, as the
17 source of other cost change factors suggests that they should; rather, First Class Mail bears the
18 brunt of the increase in costs. Second, the impact of these other, more subjective cost change
19 factors appears to be significantly greater than the impact of the “objective” change in base
20 years alone between estimated versus actual 1999 data for three months. On balance, all the
21 changes add about 1.64% to volume variable costs in First Class and cut about 1.65% to
22 volume variable costs in Standard A Commercial.

1 Beyond this, it is hard to believe that estimated versus actual 1999 costs could be this far off
2 for the two Standard A Commercial subclasses. In the estimated data, nine months of actual
3 CRA data was available and only three months remained to be estimated. For Standard A
4 Commercial Regular, the error for those remaining three months was \$284 million, or 18.5%.⁷

5
6 Because the Postal Service does not present its final adjustments in roll forward models by
7 identifiable CRA cost segment, it is not fully possible to break down these overall changes by
8 cost segment. Nonetheless, it is possible to compare the original and revised test year roll
9 forward by cost segment. The conclusion is the same as that above when one compares all
10 cost segments combined. While the other cost change factors that are inputted into the roll
11 forward appear to be across-the-board, differences in cost by subclass do not seem to confirm
12 this. Higher energy costs should, for example, lead to higher purchased transportation costs in
13 the 1294 revisions. However, while First Class Mail costs go up on this account by \$93.7
14 million, Standard A Commercial costs go down by \$24.3 million.

15
16 Clearly, the impact of all other cost changes seems to fall disproportionately on the subclass
17 subject to the statutory monopoly, First Class Mail. This is precisely the type of situation that
18 ABA&NAPM was seeking to avoid when it urged the Commission in the ABA&NAPM
19 Comments on the USPS Motion to Reconsider Order No. 1294 to not allow the Postal Service
20 the opportunity to supplement the results of actual 1999 cost data with highly subjective cost
21 change factors.

22
23
24 IV. Increased Cost Reduction Efforts from “Breakthrough Productivity” in the 1294
25 Revisions are Laudable, but the Allocation of Them in the Roll Forward Exhibits a
26 Clear Cut Bias Against First Class Workshared Mail
27

28 Exhibit USPS-ST-44Z contains the “breakthrough productivity” cost reduction initiatives that
29 total \$464.3 million on top of the \$653.9 million in cost reduction initiatives made in the
30 original case. The \$1,118.2 million goal is for TY2001. The individual initiatives are broken

⁷ The percentage is calculated by taking one quarter of the estimated annual costs as the denominator, and the difference between actual and estimated annual costs as the numerator.

1 down by types of personnel and non-personnel cost reductions. Most of the cost reductions
2 are in mail processing and city carrier costs, and most are for either First Class Mail or
3 Standard A Commercial mail, the major volume drivers of postal costs.

4
5 However, these cost reduction initiatives are not directed equally among or within the
6 subclasses. Automation mail in First Class is clearly an after-thought in the Postal Service's
7 mail processing cost reduction goals. Table Three shows the unit cost impact of these
8 initiatives, in toto, combining the original and revised cases, as well as the "breakthrough
9 productivity" initiatives of the 1294 revisions considered alone. In mail processing, the cost
10 reductions are heavily skewed toward automation mail in Standard A Commercial Regular
11 and non-automation mail in First Class.

12
13
14 **Table Three**

15
16 TY2001 Unit Cost Reduction Comparison: Original vs. 1294 Revisions
17 Mail Processing and City Delivery Carriers
18 (Cents per Piece)
19

| | Total (Original + Revised Case) | | | 1294 Revisions Only (Breakthrough Productivity) | | |
|-----------------------------|------------------------------------|---------|---------|--|---------|---------|
| | C/S-3.1 | C/S-6 | C/S-7 | C/S-3.1 | C/S-6 | C/S-7 |
| First Class Mail | | | | | | |
| Single-Piece Letters | -0.5280 | -0.1398 | -0.0112 | -0.2211 | -0.0476 | -0.0069 |
| Presort Letters and Parcels | -0.1404 | -0.0806 | -0.0104 | -0.0461 | -0.0130 | -0.0062 |
| Total Letters Subclass* | -0.3456 | -0.1119 | -0.0108 | -0.1388 | -0.0313 | -0.0065 |
| Standard A Commercial | | | | | | |
| Regular Subclass | -0.3476 | -0.0753 | -0.0119 | -0.1002 | -0.0317 | -0.0067 |

20
21 Source: ABA&NAPM-ST-1, Workpaper 1, Table 5 and 6. * All shapes.

22
23
24
25 These cost reduction goals should not be confused with measurable progress made to date,
26 which can be formally projected into the future in documented decision analysis reports, for

1 example in tangible areas such as improved read rates for RCRs. In response to
2 ABA&NAPM-ST-44-7, the Postal Service confirmed it had not made any changes between
3 its original and revised cases in TY2001 RCR read rates. Rather these cost reductions in
4 Exhibit USPS-ST-44Z are managerial goals inputted into the rate case from a 2001 operating
5 budget which has not even been formally approved as of the date USPS-ST-44 was
6 submitted.⁸

7
8 In the “breakthrough productivity” initiatives of its revised case, the second largest line item
9 after the \$102.5 million cost reduction from improved manual letter productivity is \$51.4
10 million for improved automation letter productivity. If that cost reduction initiative is heavily
11 targeted toward Standard A Commercial Regular, perhaps it could explain the two-tenths of a
12 cent gap between cost reduction efforts for Standard A Commercial Regular and automation
13 mail in First Class evident in Table Three, -0.1404 cents per piece for automated First Class
14 versus -0.3476 cents per piece for automated Standard A Commercial Regular. But that would
15 not justify such a skewed focus in cost reduction efforts.

16
17 However, it is evident from Table Four herein below as well as Table Five herein below that
18 the cost reduction efforts in Exhibit USPS-ST44Z “Improve Manual Letter Productivity”
19 affect manual operation cost pools for automated letters, not just non-automated letters. The
20 changes in MODS 14 MANL and NON MODS MANL are among the largest “direct cost”
21 changes for any cost pool between the Service’s original case and the 1294 revisions. The
22 changes in these cost pools are significant for First Class single piece and metered letters, in a
23 range not unlike corresponding changes for automated letters in Standard A Commercial
24 Regular.

25
26 However, as can be seen from Table Five these changes are much smaller for the two MANL
27 cost pools in automated presort First Class letters. If they are manual operations that do not
28 affect automated letters, they should not be affecting Standard A Commercial Regular
29 automation mail. If they are manual operations that do affect automated letters, they should
30 also be affecting automated First Class as they do Standard A Commercial Regular. In

⁸ See USPS response to ABA&NAPM/USPS-ST-44-27.

1 Table Five, the change in direct costs between the original case and the 1294 revisions is
2 -0.22 cents for First Class automated letters and -0.89 cents for its Standard A Commercial
3 Regular counterpart, a difference of almost seven-tenths of a cent.

4
5
6 **Table Four**

7
8 Change in Mail Processing Cost Avoidance by Cost Pool
9 (Cents per Piece)
10

| ABA&NAPM Method Proportional | | Change in Cost Avoidance* | ABA&NAPM Method Fixed | | Change in Cost Avoidance* |
|---------------------------------|----------|------------------------------|--------------------------|----------|------------------------------|
| MODS 11 | BCS/ | 0.04 | MODS 17 | 1BULKPR | 0.00 |
| MODS 11 | OCR/ | 0.02 | MODS 17 | 1OPBULK | 0.00 |
| MODS 13 | SPBS OTH | 0.01 | MODS 17 | 1OPPREF | -0.04 |
| MODS 13 | 1SACKS_M | 0.00 | MODS 17 | 1PLATFRM | 0.00 |
| MODS 14 | MANL | -0.09 | MODS 17 | 1POUCHNG | 0.01 |
| MODS 15 | LD15 | 0.05 | MODS 17 | 1SACKS_H | 0.00 |
| MODS 17 | 1CANCMPP | 0.00 | MODS 18 | 1EEQMT | -0.01 |
| MODS 18 | REWRAP | 0.00 | MODS 19 | INTL | 0.01 |
| MODS 41 | LD41 | 0.02 | MODS 49 | LD49 | -0.01 |
| MODS 42 | LD42 | 0.00 | MODS 79 | LD79 | 0.00 |
| MODS 43 | LD43 | 0.04 | MODS 99 | 1SUPP_F1 | 0.00 |
| MODS 44 | LD44 | 0.03 | NON MODS | ALLIED | 0.01 |
| MODS 99 | 1SUPP_F4 | 0.01 | | | |
| NON MODS | AUTO/MEC | -0.03 | | | |
| NON MODS | MANL | -0.07 | | | |
| NON MODS | MISC | 0.01 | | | |
| TOTAL PROPORTIONAL | | + 0.04 | TOTAL FIXED | | - 0.03 |

11
12 Source: USPS-LR-I-415 for revised and USPS-LR-I-81 for original.

13 * Change in Cost Avoidance = Cost Avoidance for USPS Revised Case – Cost Avoidance for
14 USPS Original Case, automation non-carrier route presort.

Table Five

Impact of All Cost Factor Changes on Unit Mail Processing Costs by Cost Pool
(Cents per Piece)

| | | FC Presort Automated Letters | | | Standard A Letter Automated | | |
|-----------|----------|------------------------------|---------|--------|-----------------------------|---------|--------|
| | | Original | Revised | Change | Original | Revised | Change |
| BMCS | OTHR | 0.00 | 0.00 | 0.00 | 0.08 | 0.05 | -0.03 |
| MODS 11 | BCS/ | 0.61 | 0.57 | -0.04 | 0.71 | 0.58 | -0.13 |
| MODS 14 | MANL | 0.23 | 0.20 | -0.03 | 0.43 | 0.25 | -0.18 |
| MODS 15 | LD15 | 0.07 | 0.07 | 0.00 | 0.07 | 0.04 | -0.03 |
| MODS 17 | 1OPBULK | 0.04 | 0.04 | 0.00 | 0.14 | 0.11 | -0.03 |
| MODS 17 | 1OPREF | 0.14 | 0.15 | 0.01 | 0.17 | 0.14 | -0.03 |
| MODS 17 | 1PLATFRM | 0.18 | 0.17 | -0.01 | 0.25 | 0.20 | -0.05 |
| MODS 17 | 1POUCHNG | 0.09 | 0.08 | -0.01 | 0.12 | 0.08 | -0.04 |
| MODS 43 | LD43 | 0.10 | 0.08 | -0.02 | 0.10 | 0.05 | -0.05 |
| NON MODS | ALLIED | 0.13 | 0.11 | -0.02 | 0.13 | 0.09 | -0.04 |
| NON MODS | MANL | 0.28 | 0.24 | -0.04 | 0.36 | 0.24 | -0.12 |
| Sub-Total | | 1.87 | 1.71 | -0.16 | 2.56 | 1.83 | -0.73 |
| TOTAL | | 2.51 | 2.29 | -0.22 | 3.19 | 2.30 | -0.89 |

Source: USPS-LR-I-415 for revised and USPS-LR-I-81 for original.

In the overall cost reduction efforts in mail processing by cost pool, there is a pattern of bringing several “direct cost” cost pool unit costs for Standard A Commercial Regular down to their counterparts in First Class automation, where they are higher in the original case. But, there is no parallel effort to bring First Class automation unit costs in line with Standard A Commercial Regular unit costs where the latter are lower in the original case.

In summary, the cost reduction efforts are heavily skewed in this case. The Postal Service has offered no justification for this bias, but it certainly gives, *ceteris paribus*, the appearance that cost avoidance is unchanged or marginally shrinking for First Class workshared letters. However, these are entirely contrived reductions in cost avoidance, manufactured out of whole cloth so to speak. Such biased cost reductions harm the USPS worksharing program, which is a vital cog in the financial well-being of the Postal Service.

1 As indicated in Table Six, the bias in cost reduction efforts may not be limited to mail
 2 processing. While these changes in unit delivery costs reflect all changes between the original
 3 case and 1294 revisions, we do know that a significant source of the change is the
 4 breakthrough productivity initiative for city delivery costs in Exhibit USPS-ST-44Z,
 5 “Improve SEI and Workhour Mgt”. The reductions in unit city delivery costs are greater for
 6 Standard A Commercial Regular automation mail in each rate category than its counterpart in
 7 First Class, and, oddly, the disparity grows the finer the level of presortation. In addition,
 8 inexplicably, (BMM) benchmark unit delivery costs for non-automation presort in First Class
 9 fall by more than automation categories, giving in my opinion the misleading appearance of
 10 reduced cost avoidance on this account.⁹

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Table Six

Changes in Unit Delivery Costs in USPS Revised Case:
First Class Presort Versus Standard A Commercial Regular

| | <u>Cents Per Piece</u> |
|--|------------------------|
| First Class Presort | |
| Non-Automation Presort (BMM benchmark) | -0.094 |
| Basic Automation | -0.031 |
| 3 Digit Presort Automated | -0.024 |
| 5 Digit Presort Automated | -0.014 |
| Standard A Commercial Regular | |
| Basic Automation | -0.036 |
| 3 Digit Presort Automated | -0.040 |
| 5 Digit Presort Automated | -0.048 |

18
19

Source: USPS-L.R.-I-95, Table 5; USPS-L.R.-I-420, pt6.xls, Table 5.

⁹ This adds to the list of costing anomalies for non-automation presort in this case, as detailed on page four including footnote 3.

1 I do not believe that the Postal Service's bias in cost reduction efforts can go un-challenged.
2 Therefore, I have incorporated in Technical Appendices BCR.1 and BCR.2 a more balanced
3 approach to cost reduction initiatives, bringing several mail processing cost pools for First
4 Class automation letter mail into correspondence with their (lower) counterparts in Standard
5 A Regular automation letter mail, much as the Postal Service brought the latter into
6 correspondence with the former for cost pools where Standard A unit costs were higher than
7 their First Class counterparts. I define this reciprocal procedure as balanced cost reductions
8 (BCR). The cost reductions in the test year total 0.2 cents per piece for First Class workshared
9 mail and are broken down by cost pool in Exhibit A, Table A2.1.

10
11 I have not re-calculated cost avoidances by rate category based on the BCRs, as all such
12 managerial goals are speculative. Clearly, some or all cost avoidances would be higher.
13 Rather, as discussed in Section VI. Below, the BCRs for First Class workshared mail can
14 make a contribution to reducing the test year deficiency in the 1294 revisions.

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V. 1294 Revisions to the Cost-Weight Studies are Limited to First Class Single Piece Only, One Reason Why They are Subjectively Skewed Against First Class Mail

Inexplicably, in its 1294 revisions, the Postal Service updated direct costs for First Class single piece mail only in its cost and weight studies.¹⁰ No updated direct cost data by cost and weight was submitted for Standard A Commercial mail. Why was only one cost-weight study updated by direct costs, when direct labor costs have clearly increased? This is very likely one reason, but only one reason, why the 1294 revisions show a \$300 million increase in costs for First Class, and only a \$30 million increase for the Standard A Commercial subclasses.

In the revised cost weight data for First Class single piece, because new piggyback data by cost segment was not incorporated, an aggregate piggyback compensation factor was added to the row labeled “other weight” (related costs). In response to ABA&NAPM/USPS-ST-44-3, the Postal Service states that this procedure is not comparable to adding piggybacks cost segment by cost segment, so the total unit costs by weight in LR-I-420 are not comparable to those in USPS witness Daniel’s original cost weight studies in LR-I-91.¹¹

The Postal Service evidently used this updated cost-weight data for final adjustments. The fact that this data was updated for First Class single piece only should help the Commission reject the \$300 million increase in volume variable costs for First Class mail that are in the 1294 revisions. Obviously, if costs are updated for some subclasses but not others, there will be a change in relative costs as well as absolute costs.

¹⁰ No revised data for First Class presort was submitted yet that is also a key cost factor for extra ounce mail.

¹¹ Further, what was submitted as a revised set of final adjustments is only comparable to LR-I-98, not LR-I-91.

1 VI. A Fair and Balanced Emphasis on Cost Reduction Efforts Between Advertising Mail
2 and Bills and Bank Statements and a Lesser Need for Contingencies in Light of Cost
3 Factor “Updates” Eliminates the Revised Test Year Loss in This Case
4

5 In Technical Appendix BCR.1, we present the 1294 revisions and our alternative direct case
6 under balanced cost reduction assumptions. BCR.1 is otherwise identical in every respect to
7 ABA&NAPM-T-1 Technical Appendix A.5, adopting our rate and discount recommendations
8 as made in that testimony together with the cost coverage adjustments made in Standard A
9 Commercial mail. Specifically, we assume here that USPS management treats First Class
10 worksharing mailers fairly in the allocation of its efforts to reduce mail processing costs for
11 automated letter mail, reducing those costs by 0.2 cents in the test year by bringing seven cost
12 pools into alignment with their Standard A Commercial Regular automation mail
13 counterparts, and one cost pool into alignment with its Standard A Commercial Regular non-
14 automation counterpart.¹² This breakthrough productivity effort reduces the test year
15 deficiency from \$266.4 million to \$178.9 million.

16
17 In Technical Appendix BCR.2, we present the USPS revised case and our alternative direct
18 case under balanced cost reduction assumptions, a modestly lower contingency (i.e. 2%), and
19 an adjustment in our cost coverage recommendation for Standard A Commercial mail that
20 reflects lower volume variable costs for Regular than the original case. In its revised case, the
21 Postal Service has in essence postured that its test year costs have gone up since the original
22 rate filing. The test year deficiency has increased from a modest surplus of \$38 million to a
23 loss of \$266 million. The clear (and erroneous) message being sent is “there is no room for
24 the Commission to adjust our original rates and discounts recommendations other than
25 increasing some rates and/or reducing some discounts.”

26
27 There is at least one area in the revised case where costs are artificially inflated across-the-
28 board, the contingency. With all these cost adjustment factors being “updated” in late July just
29 before the start of the test year on September 1st, it cannot be argued that the same 2.5%
30 percentage contingency is now required that in the Postal Service’s view was required when

¹² See Exhibit A, Table A2.1 for a description of the affected cost pools.

1 the case was initially prepared and filed. The use of updated cost factors near the start of the
2 test year reduces the need for such a large contingency because the risks of costing errors in
3 light of the updates which justify the contingency are now lower than when the case was filed
4 in January.

5
6 Finally, Technical Appendix BCR.2 inputs a lower across the board rate increase for Standard
7 A Regular Mail than my initial cost coverage adjustment for those subclasses. This reduction
8 reflects that fact that the Postal Service's revised case shows lower volume variable costs than
9 the original case for the two subclasses combined. This adjustment is made since it is the
10 allocation of institutional cost burdens that is at issue in ABA&NAPM-T-1, not in the main
11 the allocation of properly attributed volume variable costs, and since the drop in volume
12 variable costs for Standard A Regular mail appears largely to be the result of the change in
13 base years.

14
15 With a 2% contingency, the model run in BCR.2 produces a test year deficiency of zero. The
16 0.5% reduction in the contingency in essence eliminates that remaining portion of the \$266
17 million deficiency that my balanced cost reductions in BCR.1 do not, and reduces my original
18 revenue requirement in ABA&NAPM-T-1 from Standard A Commercial mail by about \$139
19 million.

20
21 On August 11, the Postal Service amended yet again its estimate of the test year deficiency in
22 this case, beyond its original changes to the 1294 revisions. The Technical Appendices and
23 above discussion do not incorporate adding the \$200 million field reserve to the test year
24 deficiency. The same point can be made and the books balanced with a zero test year
25 deficiency by adopting a more aggressive balanced cost reduction program for First Class
26 workshared mail, and/or by reducing the contingency below 2%.

27
28 In summary, it is entirely feasible on grounds of test year finances to adjust the rates and
29 discounts proposed by the Postal Service in its original case without worsening the test year
30 deficiency. All that is required is a fair balance in cost reduction initiatives and a modest
31 reduction in the contingency that is entirely warranted in light of more timely cost adjustment

- 1 factors being inputted into the case just before the start of the test year. In its 1294 revisions
- 2 the Postal Service would have the Commission and intervenors believe otherwise. However,
- 3 the Commission can and should reject that point of view.

Table A1

**Rate Category Unit Cost Estimation Based on R2000-1 Methodology
 And Cost Pool Classification Refinements
 (Cents)**

| Rate Category | Col 1 R2000-1 Model Costs | Col 2 BY99 Volume (000) | Col 3 Volume Weights | Col 4 Weighted Model Costs | Col 5 Refined Proportional Adjustment | Col 6 Refined Proportional Unit Costs | Col 7 Refined Fixed Unit Costs | Col 8 Refined Total Mail Processing Unit Costs |
|----------------------------|---------------------------------|-------------------------------|----------------------------|----------------------------------|--|--|--------------------------------------|--|
| | 1/ | 2/ | 3/ | 4/ | 5/ | 6/ | 7/ | 8/ |
| Automation Basic Presort | 4.154 | 5,022,276 | 0.135 | 0.562 | 0.889 | 3.691 | 1.207 | 4.899 |
| Automation 3-Digit Presort | 3.139 | 20,721,667 | 0.558 | 1.753 | 0.889 | 2.790 | 1.207 | 3.997 |
| Automation 5-Digit Presort | 1.745 | 7,699,788 | 0.207 | 0.362 | 0.889 | 1.550 | 1.207 | 2.758 * |
| Automation 5-Digit CSBCS | 2.238 | 3,668,568 | 0.099 | 0.221 | 0.889 | 1.989 | 1.207 | 3.196 * |
| Total | | 37,112,299 | | 2.898 | | | | |
| | | | | | | | | * The Automation 5-Digit and 5-Digit CSBCS Volume Weighted Average Combined is 2.899 |

1/ Rate categories model costs are from Table A4.
 2/ BY volumes are from the LR-I-420, Excel file LR20p2a.xls, page I-5
 3/ Each volume in Col2 is divided by the total volume
 4/ Each volume weight in Col3 is multiplied by the corresponding unit costs in Col1
 5/ Obtained by dividing the worksharing related proportional refined total unit cost (2.513) from Col4 in Table A2 by the total weighted model cost (2.898) from Col4 above
 6/ Proportional adjustment in Col5 multiplied R2000-1 model cost in Col1
 7/ Fixed adjustment is the refined total unit cost for worksharing related (fixed) from Col7 in Table A2
 8/ Sum of Col6 and Col7

Table A2

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)
Automation Non-Carrier Route Presort
Refined R2000-1 Methodology**

| Cost Pool No. | Source | Cost Pool Abbreviation | Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks | Col 2 R2000-1 Refined Worksharing Related (Proportional) Cost Pools | Col 3 R2000-1 Refined Worksharing Related (Fixed) Cost Pools | Col 4 R2000-1 Refined Worksharing Related (Proportional) Mail Processing Unit Costs | Col 5 R2000-1 Refined Worksharing Related (Fixed) Mail Processing Unit Costs | Col 6 R2000-1 Combined Refined Worksharing Related Mail Processing Unit Costs |
|-------------------------|---------|------------------------|---|---|--|---|--|---|
| | | | 1/ | | | | | |
| 1 | BMCS | NMO | 0.000 | | | | | |
| 2 | BMCS | OTHR | 0.000 | | | | | |
| 3 | BMCS | PLA | 0.000 | | | | | |
| 4 | BMCS | PSM | 0.000 | | | | | |
| 5 | BMCS | SPB | 0.000 | | | | | |
| 6 | BMCS | SSM | 0.000 | | | | | |
| 7 | MODS | BCS/ | 1.110 | X | | 1.110 | | 1.110 |
| 8 | MODS | OCR/ | 0.079 | X | | 0.079 | | 0.079 |
| 9 | MODS | FSM/ | 0.018 | | | | | |
| 10 | MODS | LSM/ | 0.007 | X | | 0.007 | | 0.007 |
| 11 | MODS | MECPARC | 0.000 | | | | | |
| 12 | MODS | SPBS OTH | 0.004 | X | | 0.004 | | 0.004 |
| 13 | MODS | SPBSPRIO | 0.001 | | | | | |
| 14 | MODS | 1SACKS M | 0.012 | X | | 0.012 | | 0.012 |
| 15 | MODS | MANF | 0.003 | | | | | |
| 16 | MODS | MANL | 0.270 | X | | 0.270 | | 0.270 |
| 17 | MODS | MANP | 0.001 | | | | | |
| 18 | MODS | PRIORITY | 0.002 | | | | | |
| 19 | MODS | LD15 | 0.131 | X | | 0.131 | | 0.131 |
| 20 | MODS | 1BULKPR | 0.004 | | X | | 0.004 | 0.004 |
| 21 | MODS | 1CANCMMMP | 0.021 | X | | 0.021 | | 0.021 |
| 22 | MODS | 1OPBULK | 0.067 | | X | | 0.067 | 0.067 |
| 23 | MODS | 1OPPREF | 0.232 | | X | | 0.232 | 0.232 |
| 24 | MODS | 1PLATFRM | 0.277 | | X | | 0.277 | 0.277 |
| 25 | MODS | 1POUCHING | 0.124 | | X | | 0.124 | 0.124 |
| 26 | MODS | 1SACKS H | 0.041 | | X | | 0.041 | 0.041 |
| 27 | MODS | 1SCAN | 0.013 | | | | | |
| 28 | MODS | BUSREPLY | 0.004 | | | | | |
| 29 | MODS | EXPRESS | 0.001 | | | | | |
| 30 | MODS | MAILGRAM | 0.000 | | | | | |
| 31 | MODS | REGISTRY | 0.001 | | | | | |
| 32 | MODS | REWRAP | 0.001 | X | | 0.001 | | 0.001 |
| 33 | MODS | 1EEQMT | 0.008 | | X | | 0.008 | 0.008 |
| 34 | MODS | INTL | 0.003 | | X | | 0.003 | 0.003 |
| 35 | MODS | LD41 | 0.048 | X | | 0.048 | | 0.048 |
| 36 | MODS | LD42 | 0.000 | X | | 0.000 | | 0.000 |
| 37 | MODS | LD43 | 0.114 | X | | 0.114 | | 0.114 |
| 38 | MODS | LD44 | 0.053 | X | | 0.053 | | 0.053 |
| 39 | MODS | LD48 EXP | 0.000 | | | | | |
| 40 | MODS | LD48 SSV | 0.014 | | | | | |
| 41 | MODS | LD49 | 0.218 | | X | | 0.218 | 0.218 |
| 42 | MODS | LD79 | 0.019 | | X | | 0.019 | 0.019 |
| 43 | MODS | 1SUPP F1 | 0.037 | | X | | 0.037 | 0.037 |
| 44 | MODS | 1SUPP F4 | 0.069 | X | | 0.069 | | 0.069 |
| 45 | NONMODS | ALLIED | 0.168 | | X | | 0.168 | 0.168 |
| 46 | NONMODS | AUTO/MECH | 0.196 | X | | 0.196 | | 0.196 |
| 47 | NONMODS | EXPRESS | 0.000 | | | | | |
| 48 | NONMODS | MANF | 0.001 | | | | | |
| 49 | NONMODS | MANL | 0.319 | X | | 0.319 | | 0.319 |
| 50 | NONMODS | MANP | 0.000 | | | | | |
| 51 | NONMODS | MISC | 0.079 | X | | 0.079 | | 0.079 |
| 52 | NONMODS | REGISTRY | 0.001 | | | | | |
| Refined Total Unit Cost | | | 3.772 | | | 2.513 | 1.198 | 3.711 |

1/ Cost pools are from Col6 of Table 9 in WP1.

Table A2.1

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)
 Automation Non-Carrier Route Presort
 Refined R2000-1 Methodology**

| Cost Pool No. | Source | Cost Pool Abbreviation | Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks | Col 2 Adjustments To CRA Mail Processing Unit Costs |
|-------------------------|---------|------------------------|--|--|
| | | | 1/ | 2/ |
| 1 | BMCS | NMO | 0.000 | |
| 2 | BMCS | OTHR | 0.000 | |
| 3 | BMCS | PLA | 0.000 | |
| 4 | BMCS | PSM | 0.000 | |
| 5 | BMCS | SPB | 0.000 | |
| 6 | BMCS | SSM | 0.000 | |
| 7 | MODS | BCS/ | 1.110 | |
| 8 | MODS | OCR/ | 0.079 | |
| 9 | MODS | FSM/ | 0.018 | |
| 10 | MODS | LSM/ | 0.007 | |
| 11 | MODS | MECPARC | 0.000 | |
| 12 | MODS | SPBS OTH | 0.004 | |
| 13 | MODS | SPBSPRIO | 0.001 | |
| 14 | MODS | 1SACKS M | 0.012 | |
| 15 | MODS | MANF | 0.003 | |
| 16 | MODS | MANL | 0.270 | |
| 17 | MODS | MANP | 0.001 | |
| 18 | MODS | PRIORITY | 0.002 | |
| 19 | MODS | LD15 | 0.131 | -0.030 |
| 20 | MODS | 1BULKPR | 0.004 | |
| 21 | MODS | 1CANCMMP | 0.021 | |
| 22 | MODS | 1OPBULK | 0.067 | |
| 23 | MODS | 1OPREF | 0.232 | -0.010 |
| 24 | MODS | 1PLATFRM | 0.277 | |
| 25 | MODS | 1POUCHING | 0.124 | |
| 26 | MODS | 1SACKS H | 0.041 | |
| 27 | MODS | 1SCAN | 0.013 | |
| 28 | MODS | BUSREPLY | 0.004 | |
| 29 | MODS | EXPRESS | 0.001 | |
| 30 | MODS | MAILGRAM | 0.000 | |
| 31 | MODS | REGISTRY | 0.001 | |
| 32 | MODS | REWRAP | 0.001 | |
| 33 | MODS | 1EEQMT | 0.008 | |
| 34 | MODS | INTL | 0.003 | |
| 35 | MODS | LD41 | 0.048 | |
| 36 | MODS | LD42 | 0.000 | |
| 37 | MODS | LD43 | 0.114 | -0.030 |
| 38 | MODS | LD44 | 0.053 | -0.020 |
| 39 | MODS | LD48 EXP | 0.000 | |
| 40 | MODS | LD48 SSV | 0.014 | |
| 41 | MODS | LD49 | 0.218 | -0.040 |
| 42 | MODS | LD79 | 0.019 | |
| 43 | MODS | 1SUPP F1 | 0.037 | |
| 44 | MODS | 1SUPP F4 | 0.069 | -0.030 |
| 45 | NONMODS | ALLIED | 0.168 | -0.020 |
| 46 | NONMODS | AUTO/MECH | 0.196 | |
| 47 | NONMODS | EXPRESS | 0.000 | |
| 48 | NONMODS | MANF | 0.001 | |
| 49 | NONMODS | MANL | 0.319 | |
| 50 | NONMODS | MANP | 0.000 | |
| 51 | NONMODS | MISC | 0.079 | -0.020 |
| 52 | NONMODS | REGISTRY | 0.001 | |
| Refined Total Unit Cost | | | 3.772 | -0.200 |

1/ Cost pools are from Col6 of Table 9 in WP1.

2/ Adjustments are based on "breakthrough productivity" which brings the unit costs into line with Standard (A) Regular Automation for 8 cost pools, except in the case of the case of MODS LD79 which is brought in line with Standard (A) Regular Nonautomation.

Table A3

**R2000-1 CRA First-Class Letter Mail Processing Unit Costs (Cents)
 Single Piece Metered Letters
 Refined R2000-1 Methodology**

| Cost Pool | Cost Pool | Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks | Col 2 R2000-1 Refined Worksharing Related (Proportional) Cost Pools | Col 3 R2000-1 Refined Worksharing Related (Fixed) Cost Pools | Col 4 R2000-1 Refined Worksharing Related (Proportional) Units Costs | Col 5 R2000-1 Refined Worksharing Related (Fixed) Unit Costs | Col 6 R2000-1 Combined Worksharing Related Unit Costs |
|-----------|-------------------------|---|---|---|--|---|--|
| No. | Source Abbreviation | | | | | | |
| | | 1/ | | | | | |
| 1 | BMCS NMO | 0.000 | | | | | |
| 2 | BMCS OTHR | 0.001 | | | | | |
| 3 | BMCS PLA | 0.000 | | | | | |
| 4 | BMCS PSM | 0.000 | | | | | |
| 5 | BMCS SPB | 0.001 | | | | | |
| 6 | BMCS SSM | 0.000 | | | | | |
| 7 | MODS BCS/ | 1.986 | X | | 1.986 | | 1.986 |
| 8 | MODS OCR/ | 0.630 | X | | 0.630 | | 0.630 |
| 9 | MODS FSM/ | 0.059 | | | | | |
| 10 | MODS LSM/ | 0.022 | X | | 0.022 | | 0.022 |
| 11 | MODS MECPARC | 0.001 | | | | | |
| 12 | MODS SPBS OTH | 0.012 | X | | 0.012 | | 0.012 |
| 13 | MODS SPBSPRIO | 0.001 | | | | | |
| 14 | MODS 1SACKS M | 0.036 | X | | 0.036 | | 0.036 |
| 15 | MODS MANF | 0.013 | | | | | |
| 16 | MODS MANL | 1.545 | X | | 1.545 | | 1.545 |
| 17 | MODS MANP | 0.002 | | | | | |
| 18 | MODS PRIORITY | 0.005 | | | | | |
| 19 | MODS LD15 | 0.705 | X | | 0.705 | | 0.705 |
| 20 | MODS 1BULKPR | 0.008 | | X | | 0.008 | 0.008 |
| 21 | MODS 1CANCMMPP | 0.310 | X | | 0.310 | | 0.310 |
| 22 | MODS 1OPBULK | 0.161 | | X | 0.161 | | 0.161 |
| 23 | MODS 1OPREF | 0.483 | | X | 0.483 | | 0.483 |
| 24 | MODS 1PLATFRM | 0.760 | | X | 0.760 | | 0.760 |
| 25 | MODS 1POUCHING | 0.349 | | X | 0.349 | | 0.349 |
| 26 | MODS 1SACKS H | 0.107 | | X | 0.107 | | 0.107 |
| 27 | MODS 1SCAN | 0.034 | | | | | |
| 28 | MODS BUSREPLY | 0.011 | | | | | |
| 29 | MODS EXPRESS | 0.005 | | | | | |
| 30 | MODS MAILGRAM | 0.000 | | | | | |
| 31 | MODS REGISTRY | 0.012 | | | | | |
| 32 | MODS REWRAP | 0.010 | X | | 0.010 | | 0.010 |
| 33 | MODS 1EEQMT | 0.022 | | X | | 0.022 | 0.022 |
| 34 | MODS INTL | 0.008 | | X | | 0.008 | 0.008 |
| 35 | MODS LD41 | 0.086 | X | | 0.086 | | 0.086 |
| 36 | MODS LD42 | 0.000 | X | | 0.000 | | 0.000 |
| 37 | MODS LD43 | 0.382 | X | | 0.382 | | 0.382 |
| 38 | MODS LD44 | 0.205 | X | | 0.205 | | 0.205 |
| 39 | MODS LD48 EXP | 0.000 | | | | | |
| 40 | MODS LD48 SSV | 0.021 | | | | | |
| 41 | MODS LD49 | 0.277 | | X | | 0.277 | 0.277 |
| 42 | MODS LD79 | 0.009 | | X | | 0.009 | 0.009 |
| 43 | MODS 1SUPP F1 | 0.114 | | X | | 0.114 | 0.114 |
| 44 | MODS 1SUPP F4 | 0.319 | X | | 0.319 | | 0.319 |
| 45 | NONMO ALLIED | 0.434 | | X | | 0.434 | 0.434 |
| 46 | NONMO AUTO/MECH | 0.354 | X | | 0.354 | | 0.354 |
| 47 | NONMO EXPRESS | 0.000 | | | | | |
| 48 | NONMO MANF | 0.003 | | | | | |
| 49 | NONMO MANL | 0.941 | X | | 0.941 | | 0.941 |
| 50 | NONMO MANP | 0.002 | | | | | |
| 51 | NONMO MISC | 0.190 | X | | 0.190 | | 0.190 |
| 52 | NONMO REGISTRY | 0.023 | | | | | |
| | Total Unit Costs | 10.659 | | | 9.593 | 0.872 | 10.465 |

1/ Cost Pools are from Col3 of Table 9 in WP1.

Table A4**Original and Revised
Model Costs (Cents)**

| Rate Category | Model Cost (Cents) | | | |
|-----------------------------|--------------------------------|----------------------------------|--|-----------------------------------|
| | Original with Piggybacks | Revised with no Piggybacks | Revised with Original Piggybacks | Revised with New Piggybacks |
| | 1/ | 2/ | 3/ | 4/ |
| FC Automation Basic | 4.093 | 2.301 | 4.154 | 4.189 |
| FC Automation 3 Digit | 3.093 | 1.742 | 3.139 | 3.165 |
| FC Automation Other | 1.719 | 0.887 | 1.745 | 1.755 |
| FC Automation 5 Digit CSBCS | 2.206 | 1.321 | 2.238 | 2.268 |

1/ From LR-I-162, Excel file Appi.xls, pages I-24, I-26, I-28, & I-30.
2/ From LR-I-420, Excel file, LR420p2a.xls, pages I-24, I-26, I-28, & I-30.
3/ For each rate category, the original piggyback factors from LR-I-162, were applied to the revised direct costs sheet and the model costs were recalculated.
4/ From LR-I-467, Revised 8/21/00.