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

Docket No. R2000-1

POSTAL RATE, FEE AND CLASSIFICATION CHANGES, 2000)

RESPONSIVE TESTIMONY TO AUGUST 25, 2000, POSTAL SERVICE SUPPLEMENTAL RESPONSE TO POR 116

OF
JAMES A. CLIFTON
ON BEHALF OF
AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

August 30, 2000

TABLE OF CONTENTS

LIST OF TABLES

EXHIBIT

Exhibit A

Refined Methodology Cost Avoidance
for First Class Workshared Mail
Based on LR-I-477

I. There are Many Questions and Concerns About the Postal Service's August 25th "Supplementary Response" to POR 116, But No Opportunity for Discovery or Oral Cross Examination

On August 25th, the Postal Service filed USPS LR-I-477 and 481, which include a re-estimation of mail processing cost avoidances for First Class workshared mail. ABA&NAPM filed a motion on August 28th to strike this information together with the Postal Service's accompanying supplementary response. Its preferred position is for reasons stated in the motion to not allow this information into evidence as part of the record.

However, as of the evening of August 29, 2000, the Commission has not ruled on the ABA&NAPM motion. Therefore, I have prepared this responsive testimony to the Postal Service's supplementary response in the event the Commission rules that that evidence be allowed into the record. This testimony has been prepared without any discovery, without the benefit of any informal technical conferences, and without any oral cross examination on the library references mentioned above. As noted in the revised testimony of MMA witness Bentley dated 8/29/00, the Postal Service's supplementary response is full of problems. The absence of criticism in this responsive testimony should not be taken to mean I agree with it. Rather, I take it at face value, and make two key points in what follows.

First, this is not the Postal Service's "final product" in a long line of revisions to its 1294 revisions. Rather, this document creates a scenario where one must look at the range of cost avoidances between the revised version of LR-I-467 (dated August 21) and the August 25th numbers in LR-I-477. Second, when I take the mid-point of this range, my cost avoidances are similar to those I originally estimated on May 22nd in ABA&NAPM-T-1 before the start of the 1294 revisions process.

II. The Postal Service's Preferred "Solution" to One Non-Automation Presort Cost Problem-- Robbing Peter to Pay Paul—is Arbitrary and Contradicts Its Own Confession of Ignorance on August 14th

On August 25, 2000, the Postal Service submitted its third revision to USPS witness Miller's Appendix I of USPS-T-24 since July 21st. The "Supplemental Response of the United States Postal Service to Presiding Officer's Ruling No. R2000-1\116" states that if the Service is "forced to rely on FY1999 data", the cost avoidances shown in LR-I-477 as filed with the supplemental response "are more appropriate for rate design purposes." The Postal Service further claims that in regard to the completion of LR-I-477, "[e]xamination of these materials reveals that the most noticeable shifts in FY 1999 results relative to FY 1998, which were hypothesized in the earlier response to be the effects of the IOCS methodological change, in fact appear to be absent (in both the Postal Service and PRC versions) when the FY 1998 IOCS methodology is applied to the FY 1999 analysis."

The latter statement by the Postal Service is preposterous and the former statement on cost avoidance preferences is entirely arbitrary insofar as the record is concerned. The new cost avoidance measures, unlike any other evidence introduced throughout the 1294 revisions process, introduce substantially lower estimates of cost avoidance for a First Class basic automation letter, and substantially higher estimates of cost avoidance for a First Class non-automation presort letter, one half cent lower for basic automation, one half cent higher for non-automation presort than the Postal Service's original case. For the Postal Service to claim as the bell is ringing mid-night on this rate case that major shifts in cost avoidance are "absent" in the new data shows a lot of "chutzpah".

In its August 14th response to Commissioner LeBlanc's query at the August 3rd hearings, the Postal Service admitted at page 6 that it really could not judge whether the FY 1999 IOCS methodology or the FY 1998 methodology produced more accurate results for allocating 9 digit barcodes between automation and nonautomation IOCS tallies.

> We are unable to determine the potential magnitudes of either the understatement of the FY1998 Nonautomation costs or the overstatement of the FY 1999 Nonautomation costs as discussed below.

The same statement must now apply to the estimation of cost avoidances for automation rate categories, and the evidence on cost avoidance per the 1294 revisions can now only revert to a range of results rather than one set of point estimates, as the Postal Service would like us to believe. Importantly, the Commission must understand that the Postal Service's preference for one extreme end of this range is entirely arbitrary and is not supported in the least by what it stated in its August 14th response. By contrast, in Table One, below, I present the range of cost avoidances for my refined USPS methodology that follow from the 1294 revisions and the uncertainty created by the change in IOCS methodology.

III. The Midpoints of the Cost Avoidances from the Two IOCS Methods are Close to My Original Cost Avoidances, and My Rate and Discount Recommendations Remain Unchanged.

The evidence submitted on August 25th in USPS LR-I-477 does not persuade me to change my recommended rates and discounts in ABA&NAPM-T-1 for the following reasons. First, since there is no a priori reason to accept one end versus the other of this range, one can take the mid-point of 6.448 cents for cost avoidance for a basic automation letter as the starting point. Second, when I add to that balanced cost reductions of 0.2 cents, I arrive at cost avoidance of 6.648 cents, close to my original figure of 6.575 cents.[1]

Using the same midpoint method as for basic automation cost avoidance, I arrive at a cost avoidance of 1.056 cents for a 3-digit presort prebarcoded letter and a cost avoidance of

[1] As applied to modeled costs, the balanced cost reductions mainly impact the basic automation rate category cost avoidance.

1.332 cents for a 5-digit presort prebarcoded letter. These are close to my original estimates in ABA&NAPM-T-1 of 1.085 cents and 1.370 cents, respectively.

Table One

ABA&NAPM Cost Avoidance Ranges Per 1294 Revisions

	MP	D	MP + D	Cost Avoidance
Lower Range: L.R. –I-477, 8/25/00				
First Class Letters				
Metered	10.465	5.410	15.875	------
Basic Automation	5.438	4.308	9.746	6.129
3D Auto	4.439	4.191	8.630	1.116
5D Auto	3.225	4.002	7.227	1.403
Upper Range: L.R.-I- 467, 8/21/00				
First Class Letters				
Metered	10.465	5.410	15.875	------
Basic Automation	4.799	4.308	9.107	6.768
3D Auto	3.920	4.191	8.111	0.996
5D Auto	2.849	4.002	6.851	1.260

Source: Exhibit B, Exhibit A Revised with errata, ABA&NAPM-ST-1.

Exhibit A

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 1/	Col 2 BY99 Volume (000) 2/	Col 3 Volume Weights 3/	Col 4 Weighted Model Costs 4/	Col 5 Refined Proportional Adjustment 5/	Col 6 Refined Proportional Unit Costs 6/	Col 7 Refined Fixed Unit Costs 7/	Col 8 Refined Total Mail Processing Unit Costs 8/	
Automation Basic Presort	4.189	5,022,276	0.135	0.565	0.976	4.088	1.350	5.438	
Automation 3-Digit Presort	3.165	20,721,667	0.558	1.766	0.976	3.089	1.350	4.439	
Automation 5-Digit Presort	1.755	7,699,788	0.207	0.363	0.976	1.713	1.350	3.063	*
Automation 5-Digit CSBCS	2.268	3,668,568	0.099	0.224	0.976	2.214	1.350	3.564	*
Total		37,112,299		2.918					
				* The Automation 5-Digit and 5-Digit CSBCS Volume Weighted Average Combined is				3.225	

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 (2.847) from Col4 in Table A2 by the total weighted model cost (2.918) 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/	1.201	X		1.201		1.201
8	MODS	OCR/	0.087	X		0.087		0.087
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	0.013	X		0.013		0.013
15	MODS	MANF	0.004					
16	MODS	MANL	0.305	X		0.305		0.305
17	MODS	MANP	0.001					
18	MODS	PRIORITY	0.002					
19	MODS	LD15	0.151	X		0.151		0.151
20	MODS	1BULKPR	0.007		X		0.007	0.007
21	MODS	1CANCMMP	0.026	X		0.026		0.026
22	MODS	1OPBULK	0.073		X		0.073	0.073
23	MODS	1OPPREF	0.246		X		0.246	0.246
24	MODS	1PLATFRM	0.304		X		0.304	0.304
25	MODS	1POUCHING	0.139		X		0.139	0.139
26	MODS	1SACKS H	0.046		X		0.046	0.046
27	MODS	1SCAN	0.015					
28	MODS	BUSREPLY	0.004					
29	MODS	EXPRESS	0.001					
30	MODS	MAILGRAM	0.000					
31	MODS	REGISTRY	0.001					
32	MODS	REWRAP	0.002	X		0.002		0.002
33	MODS	1EEQMT	0.009		X		0.009	0.009
34	MODS	INTL	0.003		X		0.003	0.003
35	MODS	LD41	0.055	X		0.055		0.055
36	MODS	LD42	0.000	X		0.000		0.000
37	MODS	LD43	0.144	X		0.144		0.144
38	MODS	LD44	0.072	X		0.072		0.072
39	MODS	LD48 EXP	0.000					
40	MODS	LD48 SSV	0.014					
41	MODS	LD49	0.251		X		0.251	0.251
42	MODS	LD79	0.021		X		0.021	0.021
43	MODS	1SUPP F1	0.041		X		0.041	0.041
44	MODS	1SUPP F4	0.082	X		0.082		0.082
45	NONMODS	ALLIED	0.210		X		0.210	0.210
46	NONMODS	AUTO/MECH	0.210	X		0.210		0.210
47	NONMODS	EXPRESS	0.000					
48	NONMODS	MANF	0.001					
49	NONMODS	MANL	0.399	X		0.399		0.399
50	NONMODS	MANP	0.000					
51	NONMODS	MISC	0.089	X		0.089		0.089
52	NONMODS	REGISTRY	0.001					
Refined Total Unit Cost			**4.261**			**2.847**	**1.350**	**4.196**

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/	1.201	
8	MODS	OCR/	0.087	
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	0.013	
15	MODS	MANF	0.004	
16	MODS	MANL	0.305	
17	MODS	MANP	0.001	
18	MODS	PRIORITY	0.002	
19	MODS	LD15	0.151	-0.030
20	MODS	1BULKPR	0.007	
21	MODS	1CANCMMP	0.026	
22	MODS	1OPBULK	0.073	
23	MODS	1OPPREF	0.246	-0.010
24	MODS	1PLATFRM	0.304	
25	MODS	1POUCHING	0.139	
26	MODS	1SACKS H	0.046	
27	MODS	1SCAN	0.015	
28	MODS	BUSREPLY	0.004	
29	MODS	EXPRESS	0.001	
30	MODS	MAILGRAM	0.000	
31	MODS	REGISTRY	0.001	
32	MODS	REWRAP	0.002	
33	MODS	1EEQMT	0.009	
34	MODS	INTL	0.003	
35	MODS	LD41	0.055	
36	MODS	LD42	0.000	
37	MODS	LD43	0.144	-0.030
38	MODS	LD44	0.072	-0.020
39	MODS	LD48 EXP	0.000	
40	MODS	LD48 SSV	0.014	
41	MODS	LD49	0.251	-0.040
42	MODS	LD79	0.021	
43	MODS	1SUPP F1	0.041	
44	MODS	1SUPP F4	0.082	-0.030
45	NONMODS	ALLIED	0.210	-0.020
46	NONMODS	AUTO/MECH	0.210	
47	NONMODS	EXPRESS	0.000	
48	NONMODS	MANF	0.001	
49	NONMODS	MANL	0.399	
50	NONMODS	MANP	0.000	
51	NONMODS	MISC	0.089	-0.020
52	NONMODS	REGISTRY	0.001	
Refined Total Unit Cost			**4.261**	**-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 No.	Source	Cost Pool Abbreviation	Col 1 Revised CRA Mail Processing Direct Costs with Original Piggybacks 1/	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
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	1CANCMMP	0.310	X		0.310		0.310
22	MODS	1OPBULK	0.161		X	0.161		0.161
23	MODS	1OPPREF	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.