Postal Rate Commission
Submitted 10/13/2006 4:22 pm
Filing ID: 54083
Accepted 10/13/2006

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

Postal Rate and Fee Changes, 2006 **Docket No. R2006-1**

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS KOBE (APWU-T-1) TO MAJOR MAILERS ASSOCIATION INTERROGATORIES MMA/APWU-T1-15-29
(October 13, 2006)

The American Postal Workers Union, AFL-CIO provides the responses of witness Kathryn Kobe to the interrogatories of the Major Mailers Association submitted on September 29, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

Darryl J. Anderson
Jennifer L. Wood
Counsel for American Postal Workers Union, AFL-CIO

O'Donnell, Schwartz & Anderson, P.C.
1300 L Street NW Suite 1200
Washington, DC 20005-4126
Voice: (202) 898-1707
Fax: (202) 682-9276
DAnderson@odsalaw.com
Jwood@odalaw.com

MMA/APWU-T1-15

In your response to MMA/APWU-T1-1 you state, "…there probably is some Single Piece mail that is still shifting from one category to the other." Is BMM, which is mailed at a post office (but not at a window), the most likely type of single piece mail that still shifts to First-Class Presorted mail? Please explain and provide any studies or other information you believe support your answer.

Response:

BMM letters certainly remain a highly desirable type of mail for a presort bureau to convert to workshared mail. However, I am unaware of any studies that provide details on which pieces shift from Single Piece mail to Presort mail.

MMA/APWU-T1-16

In your response to MMA/APWU-T1-2(C)-(D), you state, "[I]f workshare discounts are calculated to equal costs avoided by the Postal Service the unit contribution of a 'clean' piece of mail would be the same whether or not it was workshared."

A. In your opinion, are the unit cost savings that you derived in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony equal to "the costs avoided by the Postal Service" such that "the unit contribution of a 'clean' piece of mail would be the same whether or not it was workshared." Please support your answer.

B. In your opinion, if an automation 5-digit letter reverts back to single piece, will the total unit attributable cost (including collection, mail preparation (culling, facing and canceling), mail processing, transportation and delivery) be approximately 7.3 cents less? Please support your answer and show how you derive any figure other than 7.3 cents.

C. If your answer to Part (B) is yes, please confirm that all other costs that make up the difference between the cost of processing and delivering a First-Class Single Piece letter and an Automation 5-digit letter (i.e., all attributable costs that are not part of your derivation of workshared cost savings) would not change. Please support your answer. If your answer to part (B) is no, please explain how these other costs change and support your answer.

D. Please confirm that transportation costs are not affected by worksharing. Please explain and support your answer with any studies or other information you believe supports your position.

Response:

A. It is the best estimate we have of the savings between the benchmark piece and the presort pieces.

B. A single 5-digit letter converting to Single Piece would retain its general characteristics of being metered and machinable, it might be dropped in a

collection box and be collected as part of an established collection run. However, it is unlikely that just a single piece would revert back. On average, 5-digit presort letters probably would revert back to bulk metered mail letters and the estimated costs avoided between 5-digit automated letters and BMM letters are 7.3 cents.

C. I do not understand your question. However, to the extent that it asks for a comparison of the costs between the average First Class Single Piece letter and the 5-digit automated letter, my testimony has already covered why this includes many costs that are not worksharing related, see pages 6 and 7 of my testimony.

D. While I have not seen specific studies on this topic, the Commission did state in its MC95-1 Decision at 4293 on page IV-132, "the Commission excludes differences in the transportation and 'other' cost functions from its calculation of cost differentials for the automation presort workshare categories. As explained above, the record does not provide a basis for concluding that presorting or prebarcoding cause these costs to vary."

MMA/APWU-T1-17

Please refer to APWU-LR-1, pages 2 and 4, where you derive the CRA unit costs for BMM and Presorted letters, respectively.

A. Please confirm that none of the cost pools listed below are impacted by worksharing and explain the complete basis for your answer:

1. FSM 100
2. FSM/
3. MECPARC
4. SPBS OTH
5. SPBSPRIO
6. 1SACK_M
7. MANF
8. 1CANCEL
9. 1DISPATCH
10. 1FLATPRP
11. 1OPTRANS
12. 1SACK_H
13. 1SCAN
14. BUSREPLY
15. EXPRESS
16. MAILGRAM
17. REGISTRY
18. REWRAP
19. 1EEQMT
20. INTL
21. PMPC

B. Please confirm that, if any of the cost pools listed in Part (A) are, in fact, impacted by worksharing, then your derived unit cost savings shown in Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

Response:

A. Confirmed that none of these cost pools are workshare related with respect to a comparison of the bulk metered mail letter benchmark to the presort letters. I believe the PMPC cost pool has been discontinued since that work has been brought back in-house. The FSM cost pool has been replaced by the FSM1000 cost pool. The cost pools FSM1000, MANP and PRIORITY are also excluded from the workshare-related calculations although they do not appear on your list. FSM100, FSM1000, 1FLATPREP, MANF are all flats-related cost pools and while occasionally mail that is letter size is processed on flat sorting equipment it is not standard size letter mail such as the BMM letter benchmark. MECPARC, SPBSOTH, SPBSPRIO, REWRAP and MANP are all parcel and bundle related cost pools. The BMM letter benchmark is not bundled but is entered in trays. 1SACKS_M and 1SACKS_H are not related to the BMM benchmark letter because they are sack charges and neither BMM nor Presort letters are delivered in sacks. PRIORITY, EXPRESS, BUSREPLY, REGISTRY, MAILGRAM and INTL all apply to special types of letter processing and do not apply to the BMM letter benchmark. The exclusion of 1CANCEL has been covered in my testimony (see page 19). 1EEQMT is a cost pool related to empty equipment and is not impacted by worksharing. Cost pool 1DISPATCH is preparing mail for dispatch and is not related to piece distribution, cost pool 1OPTRANS is for transporting containers of mail between work areas and is not related to piece distribution, and 1SCAN includes the activities related to air shipment of First Class mail and is not related to piece distribution.

B. Not confirmed. It would depend on which cost pool was included whether it would increase or decrease the differential between the benchmark piece and the presort pieces.

MMA/APWU-T1-18

In your response to MMA/APWU-T1-4 (G), you indicate that your cost savings analysis did not include any possible savings that could result from reduced window service costs because "the Commission has determined that window service costs should not be part of the costs avoided calculations."

A. Is this a correct summary of your position? If not, please explain.

B. Do you believe that, if a significant volume of Presorted letters reverted back to Single Piece, that there would be no change in window service costs? Please explain your answer.

C. Please confirm that, to the extent that window service costs would increase if a significant volume of Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

D. Please confirm that, to the extent that collection costs would increase if a significant volume Presorted letters reverted back to Single Piece, that your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

E. Please confirm that, to the extent that mail preparation costs (culling, facing and canceling) would increase if a significant volume Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

F. Please confirm that, to the extent that transportation costs would increase if a significant volume of Presorted letters reverted back to Single Piece, your derived unit cost savings shown in the column entitled "Total Workshare Related Unit Cost Savings" of Table 1 on page 8 of your testimony would be understated. If you cannot confirm, please explain.

Response:

A. The benchmark piece, BMM letters, does not incur window service costs therefore those costs were never part of that cost analysis.

B. In its R2000-1 Decision at 5094 on page 242, the Commission made the following two statements: "the Commission continues to hold the position that window service costs are not a basis for setting worksharing discounts" and "[t]he Commission considers this a similar scenario, with mailers avoiding window costs and typically using permit indicia in place of stamps for other reasons than avoiding Postal Service costs." I agree with that analysis.

C. Not confirmed. I do not think window service costs would be impacted by such Presort mail reverting to Single Piece mail. However, it is not clear that even if there was some increase that the Commission would decide that window service costs should be part of the costs avoided calculations.

D. It is not clear collection costs would increase significantly if a significant amount of mail were reverted to Single Piece. Many mailers would drop their mail at the postal facility, as mailers do now, if they determined it would increase the speed of that mail's delivery or otherwise benefited their business activities. If the mail was dropped in a postal box, then the volume of mail might have increased, but the collection run is already being done; the increased volume would simply reduce the unit cost of collection.

E. Not confirmed. It is unlikely that these letters would revert to stamped letters thus, cancellation costs are not likely to increase. The meter prep cost pool is currently included in the calculations of costs avoided and reflects the costs of all metered mail letters since it is not possible to determine what the costs would be for just BMM letters.

F. First Class letter mail is to be sent at a uniform rate throughout the country. This means transportation costs have been averaged over all the pieces whether they are bound for Alaska or across the street. Consequently, even if

there were transportation cost increases (which is not a given based on the Commission's statements in MC95-1, see response to MMA/APWU-T1-16D) they have not been part of the workshare cost calculations and I would not add them.

MMA/APWU-T1-19

Is mail piece design a function of worksharing? Please explain your answer and indicate the extent to which mailers endeavor to meet the Postal Service's extraordinarily complex mail piece design requirements and how such efforts save postal costs, if at all. Please include a discussion of (1) the Postal Service's Mailpiece Quality Control Program and the importance of having the employees of mailers and the Postal Service pass rigorous testing procedures to qualify as Mailpiece Quality Control Specialists, and (2) the Postal Service's no tolerance policy for workshared mailers such that, if one of its many precise rules applicable to the design of workshare letters is violated by even the smallest amount, an entire mailing will be either held up or simply rejected.

Response:

No. Most businesses endeavor to have their mail piece readable and processable and there are many standard envelope types that meet that goal. Some mailers choose to make their piece of mail "stand out from the crowd" and use special graphics or eye-catching logos on their envelopes in order to increase the likelihood of its being opened and read. That is a business decision by the mailer. It is to the mailers advantage to know prior to going to the expense of printing and mailing hundreds or thousands of such pieces that they are going to be automation compatible. That is why the Postal Service makes Mailpiece Design Analysts available to test mail samples for acceptable paper, background color, and flexibility and to review artwork prior to printing.

I am not an expert on the Mailpiece Quality Control Program or its testing procedures other than it is a self-study course with a self-administered final exam and that it covers such things as the classes of mail, addressing, barcodes, postage payment methods, reply and return mail, endorsements and hazardous materials.

MMA/APWU-T1-20

Please refer to APWU LR-1, page 1, where you summarize the unit worksharing related unit costs for Nonautomation, machinable MAADC letters (NAMMA) and BMM letters.

A. Please confirm your mail processing cost results as shown in the following table. If you cannot confirm, please provide the correct figures and show how they are derived.

First-Class Letter Category	Total Workshare-Related Mail Processing Unit Cost (Cents)
BMM	9.559
NAMMA	5.715
Difference	3.844

B. Please confirm that, when modeling BMM and NAMMA costs, the Postal Service assumes that BMM and NAMMA letters both enter the mailstream at the Outgoing ISS operation, which produces nearly identical results if the same attributable cost methodology is used. See for example, USPS-LR-L-48, p. 15 (which you rely on) and USPS-LR-L-41, pages 4 and 22. If you cannot confirm, please explain.

C. Assuming you confirm the unit costs shown in the table in Part A, please explain precisely why it is reasonable that BMM should cost 3.844 cents more to process than NAMMA. If you do not confirm the unit costs in the table, please indicate the correct unit cost difference, show how it is derived and explain why that difference is reasonable.

Response:

A. BMM costs are 9.584 (see revised testimony of October 12, 2006)

B. I did not use a model of BMM in the calculation of my numbers nor does the Postal Service include such a model in USPS-LR-L-48. The Postal Service's

mail flow model for Nonautomated machinable mixed AADC letters in USPS-LR-L-48 shows entry at the outgoing ISS

C. The BMM letters cost is determined from the CRA costs for a much more aggregated pool of letters and probably reflects more costs than would be attributable to just BMM letters.

MMA/APWU-T1-21
Please refer to APWU LR-1, page 1, where you summarize the unit worksharing related unit costs for Nonautomation letters and Automation MAADC (Auto MAADC) letters.

A. Please confirm your mail processing cost results as shown in the following table. If you cannot confirm, please provide the correct figures and show how they are derived.

First-Class Letter Category	Total Workshare-Related Mail Processing Unit Cost (Cents)
Auto MAADC	5.715
Nonautomation	5.664
Difference	.051

B. Please confirm that, when modeling Auto MMADC and Nonautomation costs, the Postal Service assumes that Auto MMADC letters enter the mailstream at the Incoming MMP Auto operation, whereas Nonautomation letters enter the mailstream in either the Outgoing or Incoming ISS operation, if machinable, or a very expensive manual operation if nonmachinable. See for example, USPS-LR-L-48, pages 5, 15, 17, 19, 21, 23 and 25. If you cannot confirm, please explain.

C. Assuming you confirm the unit costs shown in the table in Part A, please explain precisely why it is reasonable that Automation MAADC letters should cost .051 cents more to process than Nonautomation letters, or that they should be nearly identical. If you do not confirm the unit costs in the table, please indicate the difference and explain why that difference is reasonable.

Response:

A. Not confirmed. The Auto MAADC letter cost is 5.820 (See APWU-LR-1, p.1, revised October 12, 2006).

B. I am not aware of an Auto MMADC model and therefore assume you were referring to Auto MAADC. As I understand the models, they show that the Auto Mixed AADC presort mail enters at the outgoing secondary auto step and then may flow to the incoming MMP auto as one of its next steps. The machinable nonauto mixed AADC enters at the outgoing ISS operation or, if not machinable, an outgoing secondary manual operation.

C. The models indicate that a higher percentage of the auto MAADC letters are being manually processed than are the nonauto mixed AADC letters and that a smaller percentage of them end up in DPS.

MMA/APWU-T1-22

Please refer to your response to Interrogatory MA/APWU-T1-10 and OCA witness Pamela A. Thompson's September 22, 2006 response to Interrogatory MMA/OCA-T4-1. You and Ms. Thompson were both asked to "provide the implicit cost coverages for First-Class (1) single piece letters and (2) presorted letters under your proposed rates, and show how you derived them." Ms. Thompson was able to provide the requested implicit cost coverages that would result from adoption of her proposed rates but you did not do so because, as you note, you have not completed a recalculation of the rollforward model that takes into account your proposed rates and mailers responses to those rates.

A. In the development of your proposed First-Class rates, what consideration, if any, did you give to the implicit cost coverages for First-Class Single Piece and Presorted mail? Please explain your answer.

B. Is it possible for you to derive implicit cost coverages for (1) First-Class Single Piece, (2) First-Class Presorted and (3) All First Class, by using the before rates volumes and costs? If yes, please provide each of the cost coverages that will result from implementation of your proposed rates. If no, please explain why you cannot derive the requested implicit cost coverages.

Response:

A. I considered that the Presort cost coverage would probably rise and the Single Piece cost coverage would probably be reduced under this proposal. I did not calculate the exact numbers.

B. It is possible to determine the revenue after rates but the cost estimates can only be approximated using the TYAR volumes and the TYBR unit costs. While the Postal Service does provide TYBR unit costs in OCA/USPS-26, it does not specify whether those costs are based on USPS or PRC cost methodologies, although I assume that it is the USPS cost methodology.

The cost distributions by shape also do not seem to be completely consistent with the Postal Service's proposed change in the maximum letter weight. However, I show the requested calculations in the table. I would note that while the Presort contribution overall (21.9 cents) is less than the Single Piece contribution overall (22.2 cents), the Postal Service's caveat about there being "substantial sampling variability" in the unit cost numbers would seem to be particularly true of the Business Parcel cost numbers. Consequently, I have calculated the Presort numbers with and without parcels.

	Volume (TYAR) (000)	**Revenue ($000)**	**Implicit Avg Rate**	**Cost/ Piece**	**Implicit Coverage**	**Per Unit Contribution**
Other Letters	34,104,264	13,982,748				
QBRM	322,989	127,581				
Ltr add ozs.	1,944,340	388,868				
Single Piece Letter shape	34,427,254	14,499,197	0.421	0.222	190%	0.199
Flats	3,127,929	1,908,037				
Flat add ozs	8,696,520	1,739,304				
Flat Shape	3,127,929	3,647,341	1.166	0.691	169%	0.475
Parcels	272,784	259,144				
Parcel add ozs	1,205,085	241,017				
Parcel Shape	272,784	500,161	1.834	1.682	109%	0.152
Single Piece-Total	37,827,966	18,646,699	0.493	0.271	182%	0.222
Nonauto Presort	1,131,839	419,912				
Nonauto add ozs.	70,473	14,095				
Auto Mixed AADC	2,840,361	996,967				
Auto AADC	2,470,006	839,802				
Auto 3-digit	22,437,620	7,539,040				
Auto 5-digit	17,744,756	5,696,067				

	Volume (TYAR) (000)	**Revenue ($000)**	**Implicit Avg Rate**	**Cost/ Piece**	**Implicit Coverage**	**Per Unit Contribution**
Auto add ozs.	1,564,056	242,429				
Presort Letters	46,624,582	15,748,311	0.338	0.101	334%	0.237
Nonauto flats	114,771	59,566				
Nonauto flat add ozs	214,671	42,934				
Mixed ADC Flats	45,938	21,591				
ADC Flats	109,847	48,113				
3-Digit Flats	270,291	115,685				
5-Digit Flats	343,298	138,349				
Additional ozs	1,098,562	219,712				
Presort Flats	884,145	645,950	0.731	0.471	155%	0.260
ADC Parcels	23,650	17,194				
3-Digit Parcels	59,580	42,719				
5-Digit Parcels	75,673	48,658				
Add ozs	685,831	137,166				
Business Parcels	158,903	245,736	1.546	6.717	23%	-5.17
All Presort	47,667,630	16,639,998	0.349	0.130	269%	0.219
Presort X Parcels	47,508,727	16,394,261	0.345	0.108	320%	0.237
Total First Class Letters	81,051,836	30,247,508	0.373	0.152	245%	0.221
Total First Class	85,495,596	35,286,697	0.413	0.192	214%	0.220
Total First Class Letters and Flats	85,063,909	34,540,799	0.406	0.176	231%	0.231

Source: Revenues are from APWU-LR-2 FirstClassRevReqtest.xls (revenue adjustment factors have been excluded) and unit cost numbers by shape are from OCA/USPS-26, unit cost numbers for aggregates, such as all Single Piece, are calculated using TYAR volume weights.

MMA/APWU-T1-23

In your response to MMA/APWU-T1-9 (B), you did not confirm that you used Nonautomation delivery costs as a proxy for BMM delivery costs because Nonautomation letters exhibit similar cost attributes to BMM letters. Instead you state that you used Nonautomation delivery costs as a proxy for BMM delivery costs "because they have been the ones used to proxy BMM unit delivery costs in the cost avoided calculation since R97-1 and they were the unit delivery costs used as the proxy for BMM by the Commission in its R2000-1 calculations."

A. Is the preamble to this question a fair statement of your position? If not, please explain.

B. Please confirm that the Postal Service proposed to use Nonautomation delivery costs as a proxy for BMM delivery costs in both R97-1 and R2000-1. If you cannot confirm, please explain.

C. Do you agree with the Commission's decision to adopt the Postal Service's recommendation to use Nonautomation delivery costs as a proxy for BMM delivery costs in those cases? Please explain your answer.

D. Is it your position that Nonautomation letters do not exhibit mail processing cost attributes that are similar to those exhibited by BMM letters? Please explain your answer.

Response:

A. Yes

B. That is my understanding.

C. The Commission had valid reasons for accepting the nonauto presort letter as the proxy but I am not sure it was a close proxy in characteristics. BMM letters are by definition machinable. Nonautomation presort letters are not always machinable. Since nonmachinable mail can not be delivery point sequenced by machine and must be cased by the carrier, that is one important aspect of

determining the unit delivery costs of mail. Consequently, I am not sure it is a good proxy for machinable BMM letters.

D. To the extent that nonautomation letters are nonmachinable or rejects from automation, I do not think they are necessarily a good proxy for BMM letters. Since the goal is to determine if workshare mail, which is mostly machinable, is contributing the same amount to overhead costs as it would if it was not workshared, it seems that using a unit delivery cost that could have a significant percentage of nonmachinable pieces might not provide the best estimate.

MMA/APWU-T1-24

Please refer to APWU-LR-1 where you derive First-Class workshared unit cost savings.

A. Please confirm that your analyses relied on the Postal Service's attributable cost methodology. If you cannot confirm, please explain.

B. Please confirm that, in every rate case since R97-1, the Commission has used its own attributable cost methodology that is different than the Postal Service's attributable cost methodology. If you cannot confirm, please explain. If you do confirm, please explain your understanding of all differences between the Commission's attributable cost methodology and the Postal Service's attributable cost methodology.

Response:

A. Confirmed.

B. Confirmed. Primarily the Commission asserts there is 100% volume variability in mail processing activities and the Postal Service estimates that there is not 100% volume variability in many mail processing activities.

MMA/APWU-T1-25

Please provide a list of all changes that you made to the Commission's R2000-1 workshared cost savings analysis.

Response:

The main differences between my calculations and those of the Postal Rate Commission's calculations in R2000-1 consist of the following: 1) I used the USPS costs rather than the PRC-version costs; 2) the PRC allocated a third of the cost pool CANCMMP to workshare-related fixed but because that cost pool has now been split into two, I allocated the 1METERPRP cost pool to workshare-related fixed and the 1CANCEL cost pool to nonworkshare related; 3) the PRC allocated the LD41, LD42, LD43, LD44 and LD48 cost pools to workshare-related fixed, witness Van-Ty-Smith now combines those cost pools with the STA/BRA NONMODS cost pools and I allocated the combined totals rather than the individual ones; 4) there are some new cost pools that did not exist in R2000-1 and with the exception of TRAYSORT which I allocated to workshare-related fixed, the new cost pools were allocated to nonworkshare related; 5) I used a combined presort letter CRA rather than using separate ones for nonautomated and automated presort.

MMA/APWU-T1-26

Please refer to APWU-LR-1, p. 2, where you derived CRA BMM unit costs.

A. Please explain why you classified the cost pool 1CANCEL as “nonworksharing-related fixed” when the Postal Service classified such costs as “worksharing-related fixed” in USPS-LR-L-141 and USPS-LR-K-48?

B. Please explain why you classified the cost pool 1TRAYSRT as “worksharing-related fixed” when the Postal Service classified such costs as “nonworksharing-related fixed” in USPS-LR-L-141 and USPS-LR-K-48?

Response:

A. Please see my testimony at page 19.

B. Please see my testimony at page 18.

MMA/APWU-T1-27

Please refer to APWU-LR-1, p. 4, where you derived CRA Presorted unit costs.

A. Please confirm that as shown on that page, you have classified cost pools 1OPBULK, 1OPPREF and 1POUCHING as "worksharing-related fixed". If you cannot confirm, please explain.

B. Please confirm that, in this proceeding, USPS witness Abdirahman classified cost pools 1OPBULK, 1OPPREF and 1POUCHING as "proportional", as shown on p. 3 of Library Reference USPS-LR-L-48. If you cannot confirm, please explain.

C. Please confirm that, as defined by USPS witness Abdirahman, all proportional costs are workshare-related, vary with the degree of presort, and are reflected by operations included in the mail flow models. If you cannot confirm, please explain.

D. Please confirm that USPS witness Abdirahman testified that he classified cost pools 1OPBULK, 1OPPREF and 1POUCHING as proportional because, in the last case, such costs were classified as proportional for Nonautomation costs and fixed for automation letters. Therefore, when he combined Nonautomation and automation CRA costs as "Presorted", just as you have done, he classified those cost pools as proportional. See Tr. 4/572, 574 and 576.

E. Please explain why you did not follow USPS witness Abdirahman's cost pool classifications for cost pools 1OPBULK, 1OPPREF and 1POUCHING.

Response:

A. Confirmed.

B. Confirmed.

C. Mr. Abdirahman does use that as a general description in describing the two types of cost pool groupings he uses in R2006-1. However, his treatment of these particular cost pools was not consistent between R2005-1 and R2006-1 for automated presort mail. In looking at the mail flow models for automated

presort letters in USPS-LR-K-48 and USPS-LR-L-48, I did not find any additional changes to the mail flow models to account for Mr. Abdirahman's reallocation of those cost pools from fixed to proportional for automated presort mail.

D. Confirmed.

E. These cost pools were classified as worksharing fixed for the automation presort letters and the BMM letter benchmark in the PRC's calculations in R2000-1 (see PRC-LR-12 Part B) and Mr. Abdirahman classified these cost pools as worksharing-related fixed for the BMM letter benchmark and for the auto presort letters in R2005-1. It was only for nonautomation presort letters that these cost pools were classified as workshare proportional. Since I could not find any changes in Mr. Abdirahman's mail flow models for automated presort mail that showed how the extra activities had been newly modeled and since the automation presort letters are 96.4% of base year volumes and over 80% of test year costs for presort letter mail (based on Mr. Smith's calculations), I allocated these cost pools the same way they have been allocated for the auto presort letters in the past, to worksharing-related fixed, for comparison to the BMM letter benchmark.

MMA/APWU-T1-28
Please refer to APWU-LR-1, pages 1 and 3.

A. Please confirm that one could replicate your worksharing cost analysis with the Commission's attributable costs by making the following substitutions:

1. Substitute "11.410" for "9.559" as the worksharing-related unit cost for BMM on page 1 of APWU-LR-1. The BMM unit cost figure of "11.410" is from USPS-LR-141, p. 1.
2. Substitute the Presorted CRA unit cost pool amounts from USPS-LRL-110, p. 3 for the unit cost pool amounts shown on page 4 of APWU-LR-1.
3. Classify the substituted Presorted CRA unit cost pool amounts described in Subpart 2 above, in the same manner as those cost pools are classified for Nonautomation letters in USPS-LR-L-141, p. 20.
4. Substitute the model-derived unit costs from USPS-LR-L-110, p. 2 for each Presorted rate category as shown in Table 2 of APWU-LR-1, page 3.

If you cannot confirm, please explain how you would replicate your worksharing analysis with the Commission's attributable costs rather than the Postal Service's attributable costs.

B. Please confirm that, if you had utilized the Commission's attributable costs in APWU-LR-1 and classified the cost pools as the Postal Service has (as shown in USPS-LR-L-141, p. 20), then you would obtain the results shown in the following table compared to your results? If you cannot confirm, please make the necessary corrections and show how they were derived.

	(1)	(2)	(3)
First-Class Rate Category	**APWU Unit Cost Savings (USPS Attributable Costs) (Cents)**	**APWU Unit Cost Savings (PRC Attributable Costs) (Cents)**	**Increase in Unit Cost Savings (Cents) (2) – (1)**
BMM Letters (Benchmark)			
Nonautomation	3.895	4.939	1.044
Auto MAADC	4.175	5.384	1.209
Auto AADC	5.384	6.851	1.467
Auto 3-Digit	5.813	7.370	1.557
Auto 5-Digit	7.296	9.147	1.852

Response:

A. 1) LR-L-141 uses slightly different allocations of cost pools than I used. If one assumes that the LD41-LD44 & LD48 cost pools would allocate through the NONMODS methodology in a similar manner as they would when directly allocated, then the PRC version cost number would be 10.9845; 2) Substitute the presort CRA cost pools from USPS-LR-L110 for the presort CRA cost pools currently in APWU-LR-1; 3)Classify the cost pools as they have been classified in APWU-LR-1 except for the LD41-LD44 &LD48 cost pools which have been aggregated with the NONMODS categories in APWU-LR-1 but here would be allocated as workshare proportional following PRC R2000-1 allocations, the 1MISC and 1SUPPORT categories are different in the PRC version but replace the 1SUPP and are allocated as workshare fixed; 4) Substitute model results from USPS-LR-L-110 to use in allocating the presort costs to workshare categories; 5)use the PRC version of unit delivery costs for all the categories as calculated in USPS-LR-L-147, with the total nonauto presort cost being weighted up from the component costs using base year volume weights.

B. Not confirmed. If the PRC costs were used and the cost pools were reallocated according to the USPS LR-L-141 allocations for nonauto presort, then I would not characterize the resulting numbers as “APWU unit cost savings”. If one were to use the PRC costs and follow the steps listed in the answer to “A” the results are shown in column 2 of the table below.

First-Class Rate Category	(1) APWU Unit Cost Savings (USPS Attributable Costs with Oct. 12th revisions) (Cents)	(2) Unit Cost Savings (PRC Attributable Costs) (Cents)	(3) Increase in Unit Cost Savings (Cents) (2) - (1)
BMM Letters (Benchmark)			
Nonautomation	3.920	4.573	0.653
Auto MAADC	4.200	4.434	0.234
Auto AADC	5.409	5.803	0.394
Auto 3-Digit	5.838	6.293	0.455
Auto 5-Digit	7.320	7.478	0.158

MMA/APWU-T1-29

Please refer to APWU-LR-1, page 3, table 3, where you show the de-averaged mail processing unit costs for Presorted letters.

A. Please confirm that the table below reproduces your derived unit costs for Nonautomation Machinable Mixed AADC letters (NAMMA) and Automation Mixed AADC letters (Auto MAADC). If you cannot confirm, please explain and provide the correct modeled and total unit costs that you recommend that the Commission use to derived workshared cost savings.

First-Class Letter Category	Modeled Mail Processing Unit Cost	Total Mail Processing Unit Cost
Auto MAADC	4.616	6.328
NAMM	4.505	6.173
Difference	0.112	0.155

B. Please confirm that, according to your cost analysis, it costs the Postal Service more to process Auto MAADC letters that include a prebarcode than NAMMA letters, which have to be barcoded by the Postal Service. If you cannot confirm, please explain.

Response:

A. Not confirmed. The NAAMA total mail processing cost is 6.224 (see APWU-LR-1, page 1, revised October 12, 2006).

B. The models indicate that a higher percentage of the auto MAADC letters are being manually processed than are the nonauto mixed AADC letters and that a smaller percentage of them end up in DPS.