

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

**Regulations Establishing System
Of Ratemaking**

Docket No. RM2007-1

**Initial Comments
Of
Major Mailers Association**

In accordance with the procedures established in Order No. 15,¹ Major Mailers Association (MMA) hereby submits its initial comments on issues relating to the rules and regulations necessary for establishment of just and reasonable rates and terms for First Class presort mail under the Postal Accountability and Enhancement Act (PAEA).²

For the reasons set out herein, it is imperative that the Commission begin implementation of PAEA by establishing a sound theoretical and factual foundation for accurately measuring the full cost savings that the Postal Service enjoys as a result of the First Class workshare mailer program. Unfortunately, as discussed below, the existing methodology that the Commission employs for this purpose is flawed in several important respects.

Pursuant to PAEA §, the Commission will be responsible for developing rates that are sufficient to meet a specific revenue requirement based on the general levels of annual cost increases. As such, the derivation of workshared cost savings will be more important than ever. It is incumbent upon the Commission to derive accurate workshare cost savings so that workshare discounts will neither short change workshare mailers by giving them discounts that are less than the costs avoided by the Postal Service nor prejudice other mailers by giving workshare mailers discounts that are higher than avoided costs.

¹ *Regulations Establishing System Of Ratemaking*, Docket No. RM2007-1, "Second Advance Notice Of Proposed Rulemaking On Regulations Establishing A System Of Ratemaking," Order No. 15, issued May 17, 2007.

² Pub. L. No. 109-435, 120 Stat. 3198 (December 20, 2006).

This will also ensure that the resulting rates fairly and reasonably divide the separate revenues required from First-Class Single Piece and bulk mailers.

MMA's Operations And Interests In This Proceeding

MMA members are among the very largest mailers of bulk First Class workshared mail. In order to prepare consistently high volume mailings, MMA members have made, and continue to make, significant investments in cutting edge software, including sophisticated address correction programs, computer systems and mail handling equipment. MMA members typically have invested hundreds of millions of dollars in facilities, equipment, and ongoing employee training to establish, maintain, and improve their high volume mailing operations. As a result, these mailers produce the highest quality, most accurate mail pieces in the industry.

MMA members also work closely with the Postal Service to test and adopt new postal service programs such as PostalOne!, which is designed to reduce postal costs by streamlining the mail acceptance process and routing high volume mailings to the least cost transportation mode, all with the aid of advanced electronic communications that eliminate cumbersome, expensive paper-based processes. Finally, several MMA members have made very significant investments in time and money to have their facilities and personnel certified under the Postal Service's Mail Piece Total Quality Management (MPTQM) program and related programs³ that assure their operations are as efficient as possible for the benefit of the Postal Service.

Many MMA members primarily send service bills and account statements to their own customers. For them, mailing is not their core business, but simply a tool they use to exchange information with, and receive payments from, their customers. Other MMA members perform mailing services for clients who prefer to outsource that function.

³ MMA members are also very involved in the design of mail pieces that must meet very stringent requirements dictated by the Postal Service's Mail piece Quality Control Program. Indeed, so knowledgeable are some MMA representatives that they instruct Postal Service personnel on the applicable mail piece design requirements.

Comments

MMA appreciates the opportunity to submit comments on a subject that is critical to the long term health of their businesses and the Postal Service. MMA commends the Commission for recognizing the importance of establishing a reasonable framework for analyzing issues involved in setting rates for First Class workshared mail as part of implementing the modern system of ratemaking required by PAEA. MMA is especially heartened that the Commission is soliciting comments on the type and nature of data and other information that are necessary to evaluate whether proposed workshare discounts are consistent with the standards of the Act.

MMA members and other First Class workshare mailers want a rate setting process that incorporates the following essential elements:

postal rates that recognize and give them full credit for all the cost sparing attributes of their high quality mail pieces, including avoided costs resulting from additional efforts and expense they incur that benefit the Postal Service and other First Class mailers, for example, by reducing handling and transportation costs;

reasonable assurances that workshared mail rates are designed using rational, transparent and consistent ratemaking policies;

rate stability and predictability so that they can plan and conduct their business affairs with a reasonable degree of certainty.

Conceptually, it is fairly easy to describe the methods and procedures and types of data and information that the Commission should use to analyze the reasonableness of existing workshared discounts and any proposed changes in those discounts. First, the methodology for determining workshared discounts should be as simple and straight forward as possible. Second, workshare discounts should be based on readily available, verifiable actual data to the greatest extent possible. Third, if it is necessary to resort to theoretical mail flow models regarding the behavior of different mail categories, all assumptions employed in the modeling process should be clearly spelled out, internally consistent, and correspond to available actual data and experience. Finally, to the extent that there are differences between the resulting conclusions of the

theoretical models and actual cost data, the Commission needs to employ reasonable methods for reconciling theoretical results and conclusions to actual data.

As currently implemented by the Commission, derivation of workshared cost savings and setting appropriate discounts involve a complicated, interrelated set of numerous separate decisions that combine the results of actual data from the Postal Service's Cost and Revenue Analysis (CRA) system with theoretical constructs such as the Postal Service's mail flow models. The major decision points in this decision making framework and the analytical "tools" employed are set forth on Exhibit I, which was taken from Table 4 in MMA-T-1, p. 13, part of the record in *Postal Rate And Fee Changes*, Docket. No. R2006-1 (R2006-1),⁴ the most recent omnibus rate proceeding. This table lists the numerous issues that the Commission has had to decide in determining the appropriate level of workshare costs savings and discounts. Exhibit I also illustrates just how controversial this process has been.

Unfortunately, the current methodology has been the opposite of straight forward. Almost all of the elements of this procedure have been subject to significant controversy in one omnibus case or another. Three examples will serve to illustrate MMA's point. First, in every recent omnibus case, the Postal Service has ignored the Commission's consistent holding that cost attribution should be based on the assumption that costs vary directly with changes in volume and persisted in proposing rates that are based on its preferred vision of cost attribution. Pursuant to Rule 54, however, the Postal Service has also provided separate, unsponsored analyses based on the Commission's costing methodology. The Postal Service's rigid insistence upon adherence to its preferred cost attribution "principle," *despite any demonstration of changed circumstances*, has led to a bloated record and confusion and additional work for the Commission, affected mailers and the Postal Service itself.

Second, the Postal Service has employed a shifting sands approach to the issue of which cost pools are "relevant" to the process of deriving workshare cost

⁴ Unless otherwise specified, all record citations are to the record in R2006-1.

savings. Too often, the Postal Service's proposals to exclude particular cost pools have been based on the highly subjective "judgments" of its costing witnesses. Unfortunately, the Commission has indulged the Postal Service's strategy to reduce workshare cost savings. In R2000-1, the Postal Service proposed, and, with limited exceptions, the Commission agreed, to eliminate many cost pools from consideration in the workshare cost savings analysis.⁵ To its credit, the Commission reinstated several of the most important cost pools in R2006-1. This is hardly a model of rate stability and predictability.

Finally, in R2006-1 the Postal Service backed away from its 10-year old consistent position that the degree of worksharing favorably impacts delivery costs. With absolutely no support for its change of heart, the Postal Service cavalierly proposed to eliminate **all** delivery cost savings from the derivation of workshare cost savings. Such patently arbitrary proposals by the Postal Service only serve to erode workshare mailers confidence in the fairness of the rate setting process. Again, to its credit, the Commission rejected the Postal Service's proposal and agreed with MMA and others by holding unequivocally that delivery costs must be included in the measurement of workshare cost savings.⁶ Unfortunately, the Commission's unexplained choice of Nonautomation, Machinable, Mixed AADC (NAMMA) letter costs as the "proxy" for the BMM benchmark for measuring workshare cost savings arbitrarily reduced the resulting cost savings **significantly**, as shown in Table 2, *infra*.

Problems with the Commission's Existing Methodology For Determining Workshared Cost Savings

In R2006-1, the Commission was provided not only with the usual list of hotly contested issues concerned with the derivation of workshared cost savings but also the Postal Service's proposal to delink First-Class single piece and workshared mail rates. After rejecting the Postal Service's delinking proposal, the Commission had to resolve the following specific issues, among others:

⁵ *Postal Rate And Fee Changes*, 2000, Docket No. R2000-1, Opinion And Recommended Decision, issued November 13, 2000, Volume 1 at 236-38, 241-42.

⁶ *Postal Rate and Fee Changes*, Docket No. R2006-1, Opinion And Recommended Decision, issued February 26, 2007 (PRC Op. R2006-1), Volume I at 146.

1. Should Bulketed Metered Mail (BMM) continue to be used as the benchmark for measuring workshared mail cost savings? The Commission ruled that BMM is still the appropriate benchmark but, like MMA, used Metered Mail Letter (MML) costs (as the “proxy” for BMM costs) because the Postal Service’s CRA system provides no specific measurement of BMM costs.
2. Which cost pools should be included in the analysis of mail processing cost savings? With minor exceptions, the Commission agreed with the position of Pitney Bowes and MMA on this issue.
3. Should delivery cost savings be included in the derivation of workshared cost savings? As already noted, the Commission correctly ruled that delivery cost savings should continue to be included in the workshare cost savings analysis.
4. What is the appropriate benchmark for measuring delivery cost savings? The Commission selected BMM as the appropriate benchmark but then selected NAMMA costs as the proxy for BMM costs.
5. How should the model-derived unit mail processing costs be reconciled to actual CRA data? The Commission adopted the Postal Service’s proposal to use one averaged, rather than two separate, CRA proportional adjustment factors for all workshared letters combined.

MMA will not discuss in these comments the Commission’s rulings on the first three issues. The Commission has explained its position on those issues. However, the Commission’s rulings on Issues 4 and 5 were not adequately addressed in the R2006-1 Opinion and need to be revisited before the PAEA is implemented. In a nutshell, the Commission relied upon faulty, contradictory assumptions and flawed mail flow models that combined to produce unreasonable and unsupportable results.

With respect to Issue 4, the Commission adopted – with little explanation – delivery costs for NAMMA as a proxy for BMM delivery costs. But using NAMMA cannot be reconciled with the Commission’s additional finding that NAMMA costs **considerably less** to process than BMM.

With respect to Issue 5, NAMMA appears to cost so much less than BMM because of the inappropriate manner in which the Commission reconciled the model-derived unit costs to actual CRA data. Thus, the Commission’s treatment with respect to Issue 5 was not only unexplained, but not even specifically considered **and** also seriously flawed.

Issue 4: What is the appropriate benchmark for measuring delivery cost savings?

In R2006-1, the Commission, without any meaningful explanation, merely “accepted”⁷ NAMMA delivery costs as the appropriate proxy for the BMM benchmark for measuring delivery cost savings. At the outset, it is difficult to understand what the Commission meant because no party affirmatively proposed NAMMA as the proxy.

The Commission’s bare bones treatment of this important issue was erroneous for several reasons. First, the Commission had never before settled upon NAMMA as the appropriate benchmark in a litigated proceeding. Indeed, R2001-1 and R2005-1 are the only previous proceedings in which NAMMA costs were proposed by the Postal Service as the proxy for BMM delivery costs. The Postal Service’s proposed use of NAMMA has no precedential effect whatsoever because both the R2001-1 and R2005-1 cases were settled and the Commission never decided this issue on the merits.⁸ For example, in R2001-1, USPS witness Miller proposed to change the delivery cost savings proxy from average NonAutomation costs that he used in R2000-1 to NAMMA costs. As the Commission stated in R2001-1:⁹

Given the short time since the Commission last explored discounts using the established Docket No. R2000-1 methodology, it is reasonable for the Commission to assume that there have not been significant intervening changes to Postal Service operations and relative costs that would result in significant changes to cost avoidance. Witness Miller has presented testimony incorporating changes to the cost attribution and cost avoidance methodology that result in noticeably different relative costs. ***Until the changes to the cost attribution and cost avoidance methodology can be adequately explored on a fully developed record, the Commission will not rely on Miller’s cost avoidance analysis.***

⁷ PRC Op. R2006-1 at 146. Despite significant disagreement about how to measure workshared delivery cost savings, the Commission failed to specifically address this controversy.

⁸ See e.g. *Postal Rate And Fee Changes*, Docket No. R2001-1, Stipulation And Agreement (S&A) at 5-6 (Paragraph 9) attached to Notice Of The United States Postal Service Withdrawing Proposals And Submitting Revised Stipulation And Agreement, dated February 13, 2002. In ruling upon the First Class worksharing discounts incorporated in the S&A

⁹ *Postal Rate And Fee Changes*, Docket No. R2001-1, Opinion And Recommended Decision Approving Stipulation And Agreement, issued March 22, 2002 at 75 (emphasis added).

Because R2005-1 was also settled, the Commission still had no occasion to explore the issue on a fully developed record in that proceeding.

In R2006-1, the Commission failed to even **acknowledge**, much less rule upon, MMA 's strong objections to using NAMMA and the substantial record evidence upon which those objections were based.¹⁰ MMA appreciates and understands the time pressures that the Commission faced under the Postal Reorganization Act. But such exigencies cannot relieve the Commission of its obligation to weigh and consider carefully all the evidence before it.

In "accepting" NAMMA delivery costs as the proxy for BMM, the Commission simply noted that, as determined by the mail flow models, the Delivery Point Sequence (DPS) Percentages for BMM and NAMMA were identical and concluded that "using the delivery costs of NAMMA as a proxy for bulk metered mail properly isolates the worksharing related delivery cost savings." PRC Op. R2006-1 at 147.

There are several reasons why the Commission's analysis is flawed. First, the Commission seems to have lost sight of its real objective. In order to find the best proxy for BMM delivery costs, it need only have considered the delivery costs for single piece metered mail letters (MML), **the same proxy it used for determining workshare cost savings in the processing function**. After all, BMM and MML mail processing flows are **identical** once the mail has been entered into the mail processing stream. By the time each of these types of letters has reached the delivery functions, they are indistinguishable. Accordingly, there was no logical or factual reason for the Commission to speculate about the reasonableness of using NAMMA delivery costs to approximate BMM delivery costs. The Postal Service provided information to derive MML unit delivery costs (See Library Reference MMA-LR-2, p. 4) and the Commission has not explained why such costs were not considered.¹¹

¹⁰ See MMA-T-1, App. I, pp. 11-17 where MMA witness Bentley discussed at length the technical errors associated with the Postal Service's derivation of NAMMA mail processing costs and the associated DPS percentage. See also MMA-T-1, App. I, p. 21 where Mr. Bentley discusses a better, more reasonable benchmark for estimating delivery cost savings.

¹¹ See MMA-T-1, App. I, pages 20-21. MMA witness Bentley found that the Postal Service's data used to de-average single piece letter delivery costs were problematic because it showed

Second, it is wrong to simply assume that NAMMA and BMM delivery unit costs are similar when, as shown in Table 1 below, the workshare-related processing unit cost **derived by the Commission** for NAMMA is so much lower than for BMM.

Table 1
Comparison of the PRC NAMMA and BMM
Workshare-Related Mail Processing Unit Costs
(Cents)

	PRC-Derived Workshare-Related Mail Processing Unit Costs			PRC-LR-12 Source
	Proportional	Fixed	Total	
BMM	10.7	2.2	12.9	CRA-BULK METERED LETTERS
NAMMA	6.8	0.9	7.7	PRESORT LETTERS SUM
Actual Difference	3.9	1.3	5.2	
% Difference	-36%	-58%	-40%	

The unit costs shown above tell an amazing story. According to the Commission, it costs the Postal Service an average of 12.9 cents in workshare-related costs to prepare BMM for delivery operations, but only 7.7 cents (**5.2 cents or 40% less**) to prepare NAMMA for delivery operations. Such a result simply is unsupportable given the fact that the mail flow for each of these categories, as depicted by the Postal Service’s models, is absolutely and undeniably identical.¹² Therefore, it is fundamentally illogical for the Commission to “accept” NAMMA delivery costs as a proxy for BMM delivery costs when, at the same time, the Commission’s analysis shows that BMM costs so much more to process.

The Commission’s reliance upon the model-derived DPS percentages to conclude that NAMMA and BMM delivery unit costs are similar is fundamentally flawed because the model results are contrived. The DPS percentages for BMM and NAMMA are identical because the mail flow volumes and densities for these

that MML unit delivery unit cost was higher than that for all single piece letters, a finding that was counter intuitive. Therefore, Mr. Bentley used the average single piece delivery unit cost because the resulting delivery cost savings were **lower** than those derived with MML costs. MMA further contends that had the Postal Service been directed to, it could have obtained a more accurate and reasonable unit delivery cost for MML without significant effort.

¹² The **only** difference between the two models is that the premium pay factor for BMM (1.15) is slightly higher than the premium pay factor for NAMMA (1.12). (See Library Reference PRC-LR-12, MP Costs, FCM Letter Costs Final).

two mail types are **assumed** to be identical. This assumption cannot be squared with actual data provided by the Postal Service. The models indicated that the average DPS percentage for all NonAutomation letters was 82.6% but the Postal Service's actual data prove that the real DPS percentage was 77.2%. (See Library Reference USPS-LR-L-67, UDCInputs "DPS%'s"). Therefore, the Commission's reliance on the model-derived DPS percentages without reconciliation to actual data is suspect. Moreover, the models' tendency to overstate the DPS percentages strongly indicates that for NonAutomation letters, the models will **overstate** the number of letters that can be processed through automation operations and, therefore, **understate** the actual processing costs. The Commission failed to consider this record evidence.¹³

Finally, as the Commission noted,¹⁴ the objective of the delivery cost savings analysis is to "isolate" the savings that result specifically from worksharing. It makes absolutely no sense to use the cost for a **workshared** category, such as NAMMA, as the proxy for the BMM benchmark from which to measure savings **due to worksharing**. The only purposes served by making such an illogical comparison are to artificially understate the cost savings due to worksharing and deny workshare mailers credit for the costs avoided by the Postal Service. Using a non-workshared letter category, such as MML, is the **only reasonable and fair** way to isolate and measure savings directly attributable to worksharing.

Table 2 quantifies the extent to which use of NAMMA understates delivery cost savings due to worksharing.

¹³ For Automation letters, the DPS percentages derived by the models were almost identical to the actual DPS percentages. Thus, there is no clear evidence that the models for Automation letters understate costs in the same manner exhibited by the models for NonAutomation letters. See MMA-LR-1, p. 2.

¹⁴ PRC Op. R2006-1 at 147.

Table 2
Comparison of The PRC and MMA Derived Delivery Cost Savings
(Cents)

Rate Category	PRC-LR-12		MMA-LR-2	
	Delivery Unit Cost	Workshare Delivery Cost Saving	Delivery Unit Cost	Workshare Delivery Cost Saving
Metered Letters (Benchmark)	4.30		7.54	
Mach NonAutomation	4.20	0.10	NA	NA
Average NonAutomation	4.31	-0.01	4.70	2.85
Automation MAADC	4.56	-0.26	4.45	3.09
Automation AADC	4.31	-0.01	4.28	3.26
Automation 3-Digit	4.20	0.10	4.20	3.34
Automation 5-Digit	3.92	0.38	4.00	3.54
Average Automation	4.12	0.18	4.14	3.40

As Table 2 shows, the Commission’s decision to simply “accept” NAMMA as the proxy for the BMM delivery cost benchmark reduces workshared cost savings **significantly**, especially as compared to the cost savings resulting from use of MML, the same proxy used to determine processing cost savings. Using NAMMA as a proxy for BMM delivery costs reduced the workshared Automation delivery cost savings from an average of 3.4 cents to just 0.18 cents. Moreover, as Table 2 shows (bolded values), the Commission’s analysis indicates that delivery cost savings for Automation MAADC and AADC letters are **negative**. Significantly, the Commission never even acknowledged these negative delivery cost savings.

The very notion that worksharing **increases** delivery costs flies in the face of all reason. Such a result is clearly erroneous because Automation mailers are subjected to stringent address regulations and other requirements that do not apply to BMM mailers. The illogical results produced by using NAMMA as the proxy for the BMM benchmark also flies in the face of actual Postal Service data showing that, on average, Automation letters cost over 3 cents less to deliver than average single piece letters. See MMA-T-1 at 15.

Issue 5: How should the model-derived unit mail processing costs be reconciled to actual CRA data?

For many years, derivation of workshare cost savings has been based in part upon theoretical mail flow models. To provide the Commission with the quality of information that it can reasonably rely upon to measure workshare cost savings, the assumptions underlying the mail flow models should be reasonable and the results produced by the models should be relatable to actual data and internally consistent. Unfortunately, the existing mail flow models simply are not adequate to the task.

The model-derived results do not square with actual data and expectations.¹⁵ Generally, the models always tended to understate costs for letters that are not prebarcoded and to overstate costs for letters that are prebarcoded.¹⁶ See MMA-T-1, App. I, pp 11-13. Typically, the Commission has compensated for these inconsistencies by applying two CRA proportional adjustment factors, one to increase the model derived unit cost for NonAutomation letters and the second factor to lower the model derived unit costs for automation letters categories.¹⁷

Despite the diligent efforts of MMA in several cases, what neither the Postal Service nor the Commission have seen fit to address or remedy are the significant internal inconsistencies exhibited by the mail flow models. Consequently, the mail flow models continue to produce internally inconsistent, counter intuitive results.

¹⁵ In principle, MMA recognizes and agrees that mail flow models will never be perfect and, consequently, there will be an ongoing need to reconcile model derived costs to the CRA.

¹⁶ In R2006-1, the Postal Service initiated wholesale changes to the IOCS data gathering mechanisms that, without explanation, transferred costs from First-Class single piece to Automation. This “shift” of costs raised actual Automation costs thereby reducing the overstatement of costs derived by the Automation models. But there were no improvements to the models themselves. See MMA-T-1, pp. 19-21 and App I, p. 17, fn 20.

¹⁷ The practice of using two separate CRA Proportional Adjustment factors has been used since R97-1, when the Postal Service first began using the mail flow models to derive workshared cost savings. In R2006-1, Automation and NonAutomation CRA costs were combined and then de-averaged by use of the models. The Commission’s unexplained decision to use just one CRA Proportional Factor to reconcile all workshared letter costs simply ignores its past practice, which was not only reasonable, but also necessary.

It is beyond cavil that worksharing reduces mail processing costs. Nevertheless, the mail flow models show just the opposite – adding prebarcodes to letters that were not barcoded **increases** processing costs. Attached hereto as Exhibit II is an Excel File designed to demonstrate the peculiar, counter intuitive workings of the mail flow models. This file permits the user to modify the status of different mail categories – from non-barcoded to prebarcoded for BMM and from prebarcoded to non-barcoded for Automation MAADC-AADC and Single Piece prebarcoded letters such as Courtesy Reply Mail (CRM) or Qualified Business Reply Mail (QBRM). As Exhibit II shows:

Changing BMM so that it is prebarcoded **increases** processing costs by .24 cents;

Changing CRM-QBRM so that it is not prebarcoded **reduces** processing costs by 0.24 cents; and

Changing Auto MAADC-AADC so it is not presorted and not prebarcoded increases processing costs but only by 0.02 cents, much less than expected.

MMA believes that the real problem with the existing mail flow models lies in assumptions relating to the Remote Bar Code System (RBCS) where addresses are read and barcodes are applied. However, regardless of the underlying reasons for the counter intuitive results produced by the existing mail flow models, workshared mailers are entitled to, and the Commission should require the Postal Service to conduct, a thorough re-examination of the assumptions used to construct the mail flow models. There is no doubt that there is something terribly wrong with the models and has been since at least R2001-1. See MMA-T-1. App. I, p. 11.

Unless and until the mail flow models are corrected, we urge the Commission to use **special** steps to account for these anomalies when reconciling the model-derive unit costs to actual CRA data. Specifically, the Commission should adopt the procedures recommended by MMA in R2006-1, including developing and applying two separate CRA Proportional Adjustment factors – one CRA Proportional Adjustment factor for letter categories that are prebarcoded and the other factor to letter categories that are non-prebarcoded.

Such a methodology corrects the Commission's anomalous conclusion, shown in Table 1 above, that the costs of processing NAMMA and BMM are significantly different. Using this methodology also produces more accurate unit costs for all of the remaining letter categories. Because the CRA costs for Automation and NonAutomation costs were combined in R2006-1 to correct for other, unrelated data collection problems, the Commission's understatement of Nonautomation letter processing costs causes a corresponding overstatement of Automation letter processing costs. The detrimental result of the Commission's analysis is that workshared cost savings for Automation letter mailers are artificially reduced.

Conclusion

For the foregoing reasons, the Commission needs to reform the existing formula for determining workshared cost savings so that the PAEA can be implemented in a way that is fair to all mailers. The Commission should employ a straight forward set of rational rate setting principles that are easy to understand and translate into concrete presort discounts and rates. Workshared mailers deserve a rate setting process that is transparent. As part of this rate reform process, the Commission should revisit and correct the obvious methodological errors identified by MMA.

Respectfully submitted,

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**Exhibit I
Comparison Of Workshared Cost Savings Analyses**

Issue	MMA R2006-1	PRC R2000-1	USPS R2001-1 and R2005-1	USPS R2006-1
Mail Processing:				
Costs	PRC Attributable Costs	PRC Attributable Costs	USPS Attributable Costs	USPS Attributable Costs
Benchmark	MML	Adjusted MML	MML	NA
Cost Pool Classification	Worksharing Proportional, Fixed	Worksharing Proportional, Fixed and Nonworksharing Fixed	Worksharing Proportional, Fixed and Nonworksharing Fixed	Worksharing Proportional, Fixed
Automation & NonAuto Costs	Combined from CRA and Modeled to Separate	Taken Directly from CRA and Separately Modeled	Taken Directly from CRA and Separately Modeled	Combined from CRA and Modeled to Separate
CRA Proportional Adjustment Factor	Applied Separately for BMM, Auto and NonAuto letters	Applied Separately for BMM, Auto and NonAuto letters	Applied Separately for BMM, Auto and NonAuto letters	Derived and Applied for all Presorted Letters Combined, NA for BMM
DPS %s Derivation	Derived Separately for Auto and NonAuto Letters from Models	Derived Separately for Auto and NonAuto Letters from Models	Derived Separately for Auto and NonAuto Letters from Models	Derived Separately for Auto and NonAuto Letters from Delivery Data
DPS %s Reconciliation	Reconciled to Delivery Data	Not Reconciled	Not Reconciled	Reconciled to Delivery Data
Delivery:				
Benchmark	Single Piece Letters	NonAuto Letters	NonAuto Machinable Mixed AADC Letters	NA
Presort Categories	Unit Delivery Costs Derived Separately for Each Presort Level	Unit Delivery Costs Derived Separately for Each Presort Level	Unit Delivery Costs Derived Separately for Each Presort Level	Unit Delivery Cost Derived for All Auto Letters Combined

Source: MMA-T-1, Table 4, p. 13.

Proof that the Mail Flow Models Understate RBCS Costs

Letter Category	Model Unit Cost	Entry Point	Page Source
BMM (Nonprebarcoded)	5.21	Out ISS	2,3
BMM Prebarcoded	5.45	Out Prim Auto	4,5
Add'l Cost for Prebarcoding	0.24		
CRM-QBRM (Prebarcoded)	5.45	Out Prim Auto	6,7
CRM-QBRM Non-Prebarcoded	5.21	Out ISS	8,9
Add'l Cost for Removing the Prebarcode	-0.24		
Auto MAADC (Prebarcoded, Presorted)	5.19	Out Sec Auto	10,11
Auto MAADC NonPrebarcoded NonPresorted	5.22	Out ISS	12,13
Add'l Cost for Removing the Prebarcode & Presort	0.02		

Source for all data: PRC-LR-12 MP Costs

This exhibit starts with the Commission's version of the Postal Service's mail flow models, as shown on pages 2,3 for BMM; 5,6 for CRM-QBRM; and pages 9,10 for Auto MAADC.

As shown in the models, pages 3,5,7,9,11 and 13, the entry points for each type of mail are highlighted. The corresponding model-derived unit costs are also highlighted and shown on each page preceding the model pages, i.e., pages 2,4,6,8,10 and 12.

The results shown in the table above illustrate how the model derived unit costs change when the entry point is changed. This exhibit considers three possibilities:

- For BMM, the entry points are Out ISS (pages 2 and 3) and Out Prim Auto (pages 4 and 5)
- For CRM-QBRM, the entry points are Out Prim Auto (pages 6 and 7) and Out ISS (pages 8 and 9)
- For Auto MAADC, the entry points are Out Sec Auto (pages 10 and 11) and Out ISS (pages 12 and 13)

**FIRST-CLASS BULK METERED LETTERS
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	10,073	6,856	\$38.185	0.557	0.007	2.064	1.156	1.165
RCR	1,331	---	--	--	--	--	0.094	0.013
REC	288	787	\$22.086	2.806	0.033	1.370	3.878	0.112
OSS	1,350	9,370	\$38.185	0.408	0.005	1.751	0.718	0.097
LMLM	27	3,111	\$38.185	1.227	0.014	2.902	3.577	0.010
Outgoing Primary								
Automation	307	8,461	\$38.185	0.451	0.005	1.739	0.790	0.024
Manual	92	408	\$38.185	9.371	0.110	1.278	12.081	0.111
Outgoing Secondary								
Automation	2,798	9,157	\$38.185	0.417	0.005	1.749	0.734	0.205
Manual	121	650	\$38.185	5.875	0.069	1.278	7.574	0.092
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.010	2.064	1.785	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	8,510	\$38.185	0.449	0.005	1.801	0.814	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Incoming MMP								
Automation AADC	1,814	6,879	\$38.185	0.555	0.007	1.752	0.979	0.178
Manual ADC	199	583	\$38.185	6.553	0.077	1.309	8.656	0.173
Incoming SCF/Primary								
Automation	5,506	7,085	\$38.185	0.539	0.006	1.766	0.958	0.528
Manual	236	627	\$38.185	6.095	0.071	1.278	7.857	0.186
Incoming Secondaries								
Auto Carrier Route	2,007	7,560	\$38.185	0.505	0.006	1.769	0.899	0.180
Auto 3-Pass DPS	3,140	14,830	\$38.185	0.257	0.003	1.718	0.445	0.140
Auto 2-Pass DPS	14,895	9,401	\$38.185	0.406	0.005	1.737	0.710	1.058
Man Inc Sec Final At Plant	646	575	\$38.185	6.646	0.078	1.278	8.568	0.553
Man Inc Sec Final At DU	229	928	\$38.185	4.114	0.048	1.278	5.304	0.121
Box Section Sort, DPS	736	2,015	\$38.185	1.895	0.022	1.309	2.504	0.184
Box Section Sort, Other	154	1,007	\$38.185	3.790	0.044	1.309	5.007	0.077

Model Cost 1/	5.205
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DPS % 2/	82.65%
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Sources

- [1]: From Model Spreadsheet, page 3.
- [2]: Productivity Spreadsheet.
- [3]: Wage Rate and Piggyback Spreadsheet.
- [4]: [3] x [2] / 100.
- [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
- [6]: Wage Rate and Piggyback Spreadsheet.
- [7]: [4] x [6] + [5].
- [8]: [1] * ([7] / 10,000).

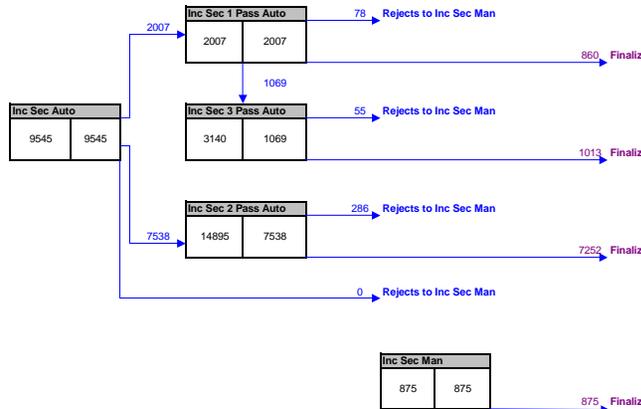
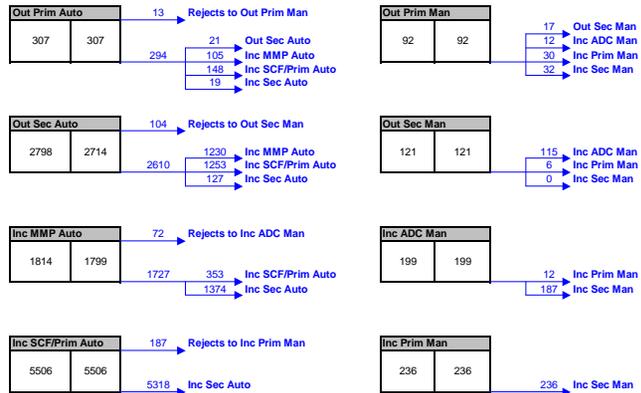
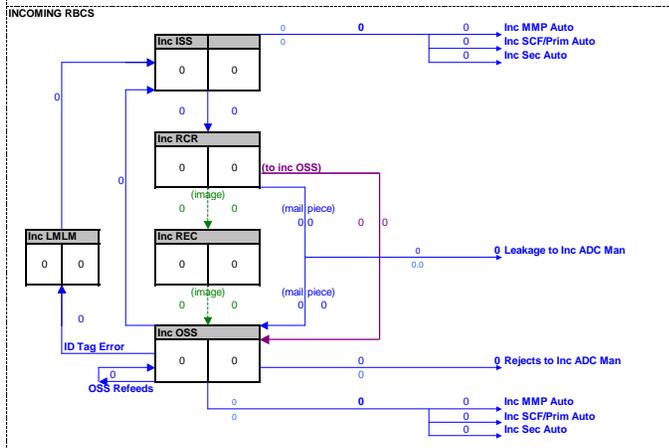
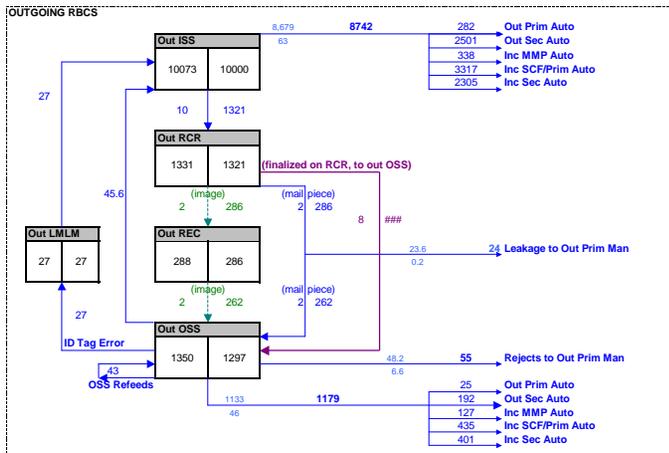
1/: Sum of [8].

2/: (Pieces Finalized in DPS Operations) / (Total Pieces Out).

FIRST-CLASS BULK METERED LETTERS MAIL FLOW MODEL

PCS IN = 10000 PCS OUT = 10000

ENTRY POINTS:			
Out ISS	10000	Inc ISS/RCR	0
Out RCR	0	Inc MMP Auto	0
Out Prim Auto	0	Inc SCF/Prim Auto	0
Out Sec Auto	0	Inc Sec Auto	0
Out Prim Man	0	Inc ADC Man	0
Out Sec Man	0	Inc SCF/Prim Man	0
		Inc Sec Man	0



**FIRST-CLASS BULK METERED LETTERS, IF PREBARCODED
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$38.185	0.557	0.007	2.064	1.156	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	9,370	\$38.185	0.408	0.005	1.751	0.718	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Outgoing Primary								
Automation	10,005	8,461	\$38.185	0.451	0.005	1.739	0.790	0.791
Manual	424	408	\$38.185	9.371	0.110	1.278	12.081	0.512
Outgoing Secondary								
Automation	720	9,157	\$38.185	0.417	0.005	1.749	0.734	0.053
Manual	107	650	\$38.185	5.875	0.069	1.278	7.574	0.081
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.010	2.064	1.785	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	8,510	\$38.185	0.449	0.005	1.801	0.814	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Incoming MMP								
Automation AADC	3,768	6,879	\$38.185	0.555	0.007	1.752	0.979	0.369
Manual ADC	306	583	\$38.185	6.553	0.077	1.309	8.656	0.265
Incoming SCF/Primary								
Automation	5,880	7,085	\$38.185	0.539	0.006	1.766	0.958	0.563
Manual	365	627	\$38.185	6.095	0.071	1.278	7.857	0.287
Incoming Secondaries								
Auto Carrier Route	1,934	7,560	\$38.185	0.505	0.006	1.769	0.899	0.174
Auto 3-Pass DPS	3,026	14,830	\$38.185	0.257	0.003	1.718	0.445	0.135
Auto 2-Pass DPS	14,356	9,401	\$38.185	0.406	0.005	1.737	0.710	1.020
Man Inc Sec Final At Plant	889	575	\$38.185	6.646	0.078	1.278	8.568	0.762
Man Inc Sec Final At DU	316	928	\$38.185	4.114	0.048	1.278	5.304	0.167
Box Section Sort, DPS	709	2,015	\$38.185	1.895	0.022	1.309	2.504	0.178
Box Section Sort, Other	181	1,007	\$38.185	3.790	0.044	1.309	5.007	0.091

Model Cost 1/	5.446
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DPS % 2/	82.65%
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Sources

- [1]: From Model Spreadsheet, page 5.
- [2]: Productivity Spreadsheet.
- [3]: Wage Rate and Piggyback Spreadsheet.
- [4]: [3] x [2] / 100.
- [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
- [6]: Wage Rate and Piggyback Spreadsheet.
- [7]: [4] x [6] + [5].
- [8]: [1] * ([7] / 10,000).

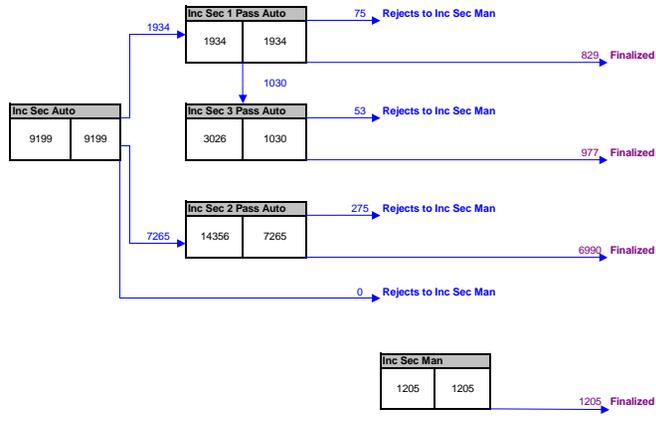
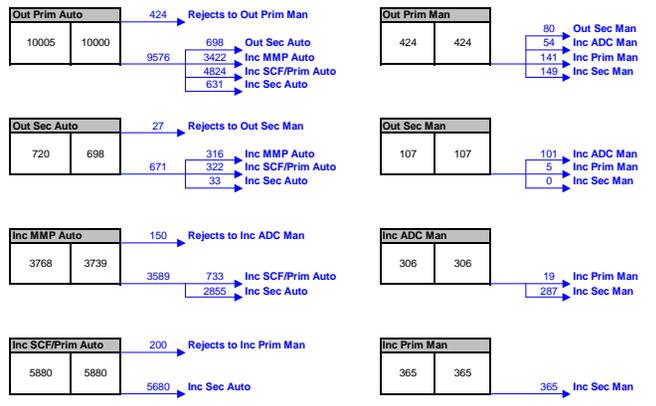
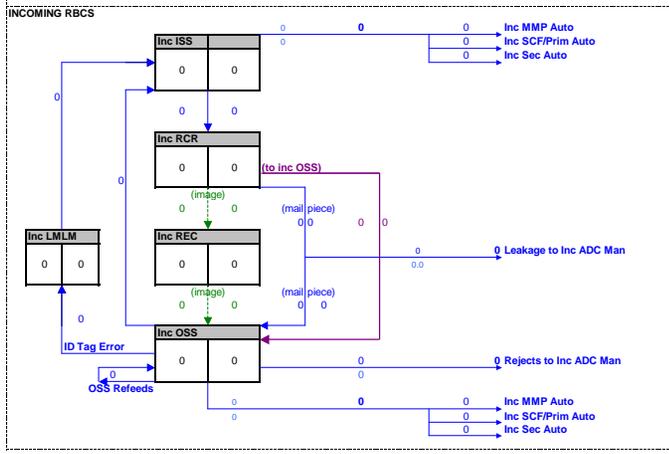
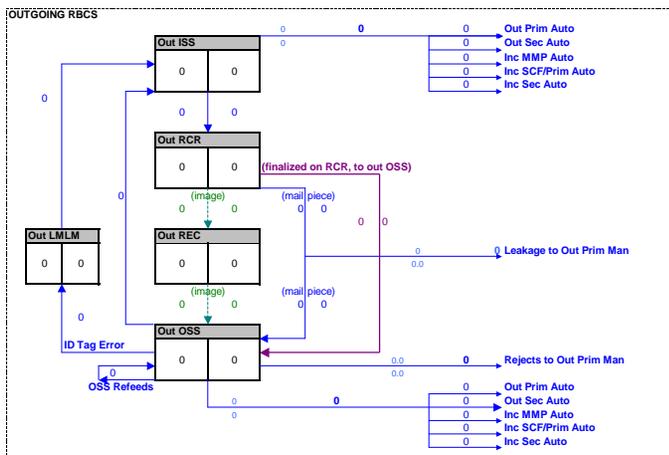
1/: Sum of [8].

2/: (Pieces Finalized in DPS Operations) / (Total Pieces Out).

FIRST-CLASS BULK METERED LETTERS, IF PREBARCODED MAIL FLOW MODEL

PCS IN = 10000 PCS OUT = 10000

ENTRY POINTS:			
Out ISS	0	Inc ISS/RCR	0
Out RCR	0	Inc MMP Auto	0
Out Prim Auto	10000	Inc SCF/Prim Auto	0
Out Sec Auto	0	Inc Sec Auto	0
Out Prim Man	0		
Out Sec Man	0		
		Inc ADC Man	0
		Inc SCF/Prim Man	0
		Inc Sec Man	0



**FIRST-CLASS SINGLE PIECE CRM OR QBRM LETTERS
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$38.185	0.557	0.007	2.064	1.156	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	9,370	\$38.185	0.408	0.005	1.751	0.718	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Outgoing Primary								
Automation	10,005	8,461	\$38.185	0.451	0.005	1.739	0.790	0.791
Manual	424	408	\$38.185	9.371	0.110	1.278	12.081	0.512
Outgoing Secondary								
Automation	720	9,157	\$38.185	0.417	0.005	1.749	0.734	0.053
Manual	107	650	\$38.185	5.875	0.069	1.278	7.574	0.081
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.010	2.064	1.785	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	8,510	\$38.185	0.449	0.005	1.801	0.814	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Incoming MMP								
Automation AADC	3,768	6,879	\$38.185	0.555	0.007	1.752	0.979	0.369
Manual ADC	306	583	\$38.185	6.553	0.077	1.309	8.656	0.265
Incoming SCF/Primary								
Automation	5,880	7,085	\$38.185	0.539	0.006	1.766	0.958	0.563
Manual	365	627	\$38.185	6.095	0.071	1.278	7.857	0.287
Incoming Secondaries								
Auto Carrier Route	1,934	7,560	\$38.185	0.505	0.006	1.769	0.899	0.174
Auto 3-Pass DPS	3,026	14,830	\$38.185	0.257	0.003	1.718	0.445	0.135
Auto 2-Pass DPS	14,356	9,401	\$38.185	0.406	0.005	1.737	0.710	1.020
Man Inc Sec Final At Plant	889	575	\$38.185	6.646	0.078	1.278	8.568	0.762
Man Inc Sec Final At DU	316	928	\$38.185	4.114	0.048	1.278	5.304	0.167
Box Section Sort, DPS	709	2,015	\$38.185	1.895	0.022	1.309	2.504	0.178
Box Section Sort, Other	181	1,007	\$38.185	3.790	0.044	1.309	5.007	0.091

Model Cost 1/	5.446
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DPS % 2/	79.66%
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Sources

- [1]: From Model Spreadsheet, page 7.
- [2]: Productivity Spreadsheet.
- [3]: Wage Rate and Piggyback Spreadsheet.
- [4]: [3] x [2] / 100.
- [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
- [6]: Wage Rate and Piggyback Spreadsheet.
- [7]: [4] x [6] + [5].
- [8]: [1] * ([7] / 10,000).

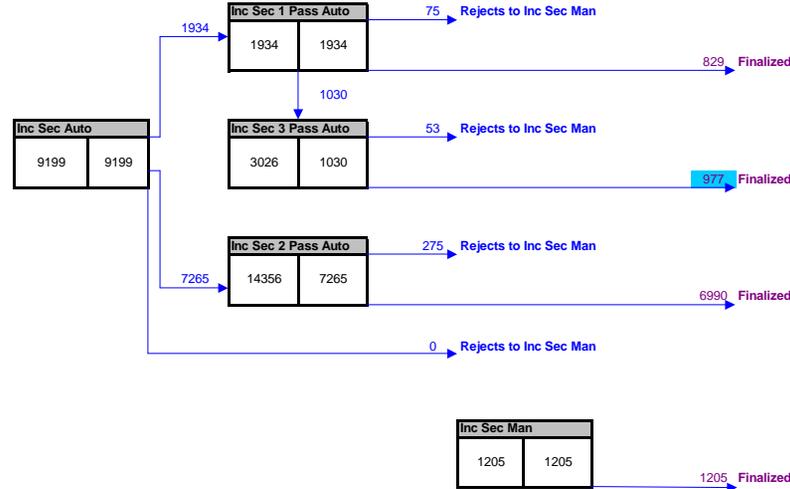
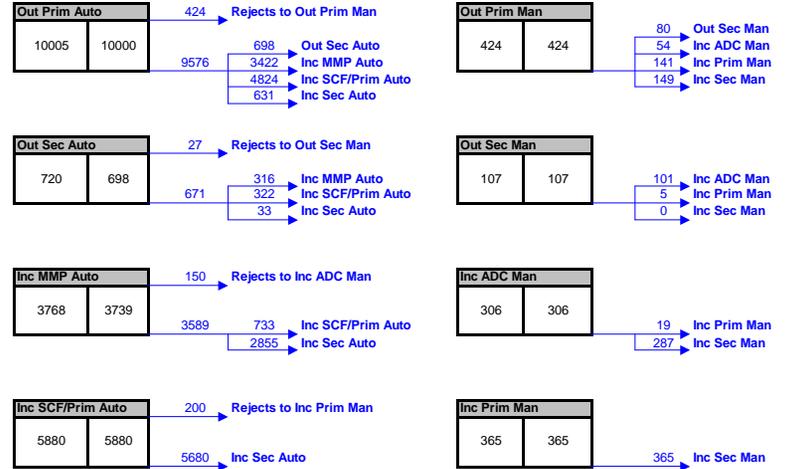
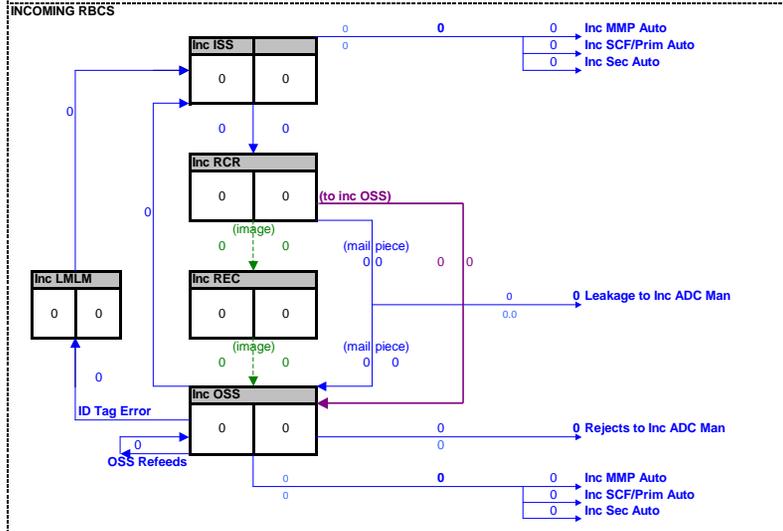
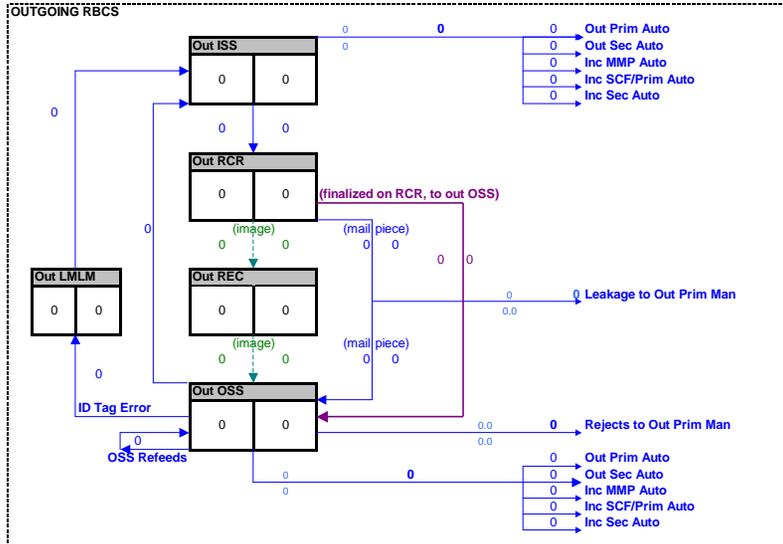
1/: Sum of [8].

FIRST-CLASS SINGLE PIECE CRM OR QBRM LETTERS MAIL FLOW MODEL

PCS IN = 10000

PCS OUT = 10000

ENTRY POINTS:			
Out ISS	0	Inc ISS	0
Out RCR	0	Inc MMP Auto	0
Out Prim Auto	10000	Inc SCF/Prim Auto	0
Out Sec Auto	0	Inc Sec Auto	0
Out Prim Man	0		
Out Sec Man	0		
		Inc ADC Man	0
		Inc SCF/Prim Man	0
		Inc Sec Man	0



**FIRST-CLASS SINGLE PIECE CRM OR QBRM LETTERS, IF NOT PREBARCODED
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	10,073	6,856	\$38.185	0.557	0.007	2.064	1.156	1.165
RCR	1,331	---	--	--	--	--	0.094	0.013
REC	288	787	\$22.086	2.806	0.033	1.370	3.878	0.112
OSS	1,350	9,370	\$38.185	0.408	0.005	1.751	0.718	0.097
LMLM	27	3,111	\$38.185	1.227	0.014	2.902	3.577	0.010
Outgoing Primary								
Automation	307	8,461	\$38.185	0.451	0.005	1.739	0.790	0.024
Manual	92	408	\$38.185	9.371	0.110	1.278	12.081	0.111
Outgoing Secondary								
Automation	2,798	9,157	\$38.185	0.417	0.005	1.749	0.734	0.205
Manual	121	650	\$38.185	5.875	0.069	1.278	7.574	0.092
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.010	2.064	1.785	0.000
RCR	0	--	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.033	1.370	3.878	0.000
OSS	0	8,510	\$38.185	0.449	0.005	1.801	0.814	0.000
LMLM	0	3,111	\$38.185	1.227	0.014	2.902	3.577	0.000
Incoming MMP								
Automation AADC	1,814	6,879	\$38.185	0.555	0.007	1.752	0.979	0.178
Manual ADC	199	583	\$38.185	6.553	0.077	1.309	8.656	0.173
Incoming SCF/Primary								
Automation	5,506	7,085	\$38.185	0.539	0.006	1.766	0.958	0.528
Manual	236	627	\$38.185	6.095	0.071	1.278	7.857	0.186
Incoming Secondaries								
Auto Carrier Route	2,007	7,560	\$38.185	0.505	0.006	1.769	0.899	0.180
Auto 3-Pass DPS	3,140	14,830	\$38.185	0.257	0.003	1.718	0.445	0.140
Auto 2-Pass DPS	14,895	9,401	\$38.185	0.406	0.005	1.737	0.710	1.058
Man Inc Sec Final At Plant	646	575	\$38.185	6.646	0.078	1.278	8.568	0.553
Man Inc Sec Final At DU	229	928	\$38.185	4.114	0.048	1.278	5.304	0.121
Box Section Sort, DPS	736	2,015	\$38.185	1.895	0.022	1.309	2.504	0.184
Box Section Sort, Other	154	1,007	\$38.185	3.790	0.044	1.309	5.007	0.077

Model Cost 1/	5.205
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DPS % 2/	79.66%
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Sources

- [1]: From Model Spreadsheet, page 9.
- [2]: Productivity Spreadsheet.
- [3]: Wage Rate and Piggyback Spreadsheet.
- [4]: [3] x [2] / 100.
- [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
- [6]: Wage Rate and Piggyback Spreadsheet.
- [7]: [4] x [6] + [5].
- [8]: [1] * ([7] / 10,000).

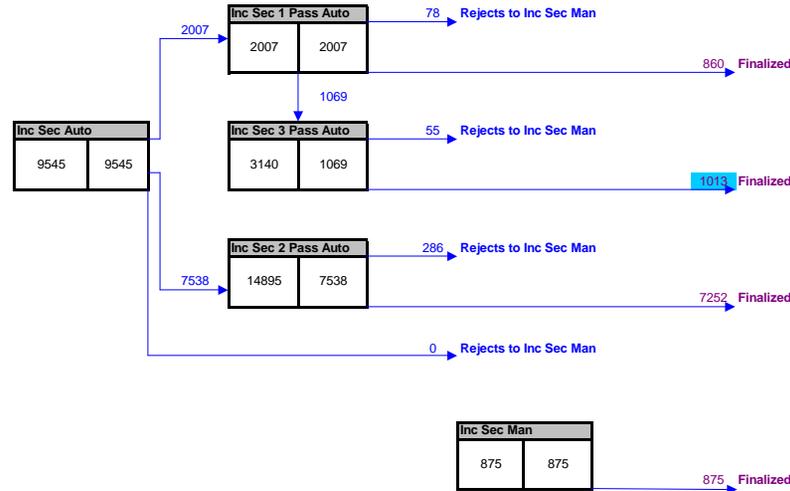
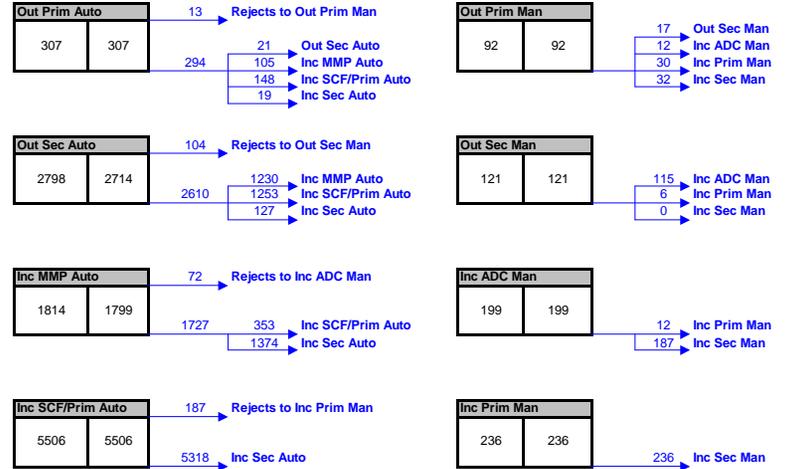
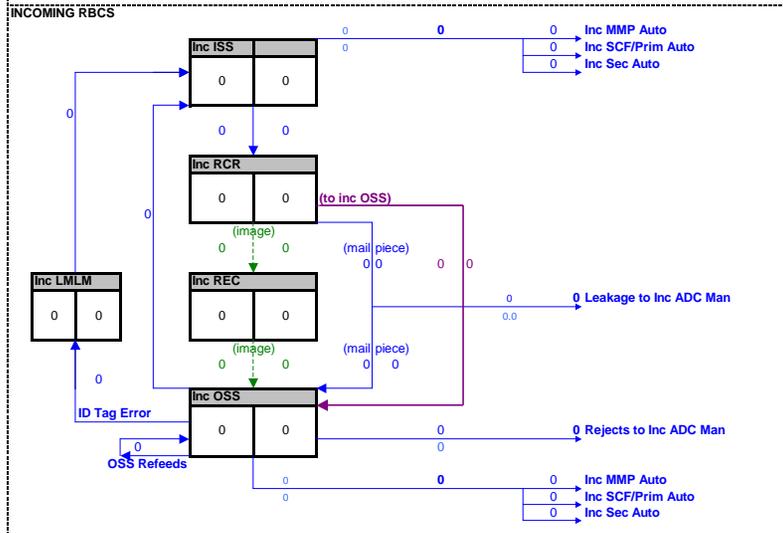
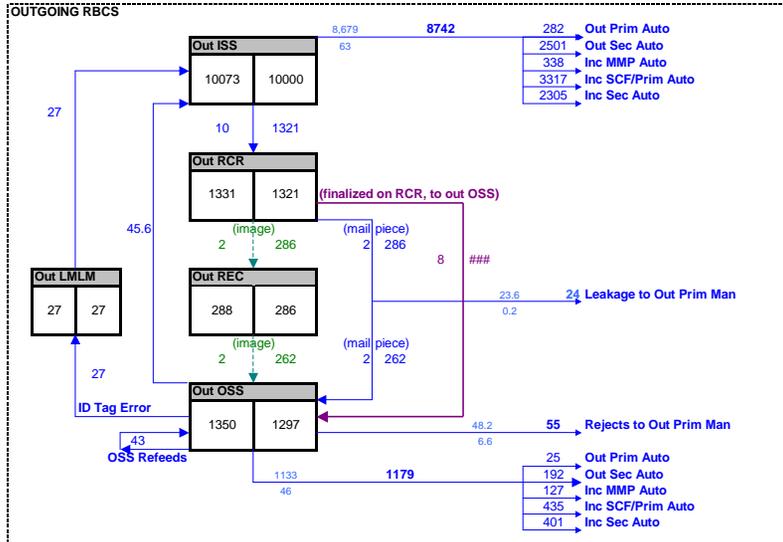
1/: Sum of [8].

FIRST-CLASS SINGLE PIECE CRM OR QBRM LETTERS, IF NOT PREBARCODED MAIL FLOW MODEL

PCS IN = 10000

PCS OUT = 10000

ENTRY POINTS:					
Out ISS	10000	Inc ISS	0	Inc ADC Man	0
Out RCR	0	Inc MMP Auto	0	Inc SCF/Prim Man	0
Out Prim Auto	0	Inc SCF/Prim Auto	0	Inc Sec Man	0
Out Sec Auto	0	Inc Sec Auto	0		
Out Prim Man	0				
Out Sec Man	0				



**FIRST-CLASS AUTOMATION MIXED-AADC PRESORTED LETTERS
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	0	6,856	\$38.185	0.557	0.008	2.064	1.158	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.042	1.370	3.888	0.000
OSS	0	9,370	\$38.185	0.408	0.006	1.751	0.720	0.000
LMLM	0	3,111	\$38.185	1.227	0.019	2.902	3.581	0.000
Outgoing Primary								
Automation	0	8,461	\$38.185	0.451	0.007	1.739	0.792	0.000
Manual	0	408	\$38.185	9.371	0.142	1.278	12.113	0.000
Outgoing Secondary								
Automation	10,308	9,157	\$38.185	0.417	0.006	1.749	0.736	0.758
Manual	384	650	\$38.185	5.875	0.089	1.278	7.594	0.291
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.013	2.064	1.788	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.042	1.370	3.888	0.000
OSS	0	8,510	\$38.185	0.449	0.007	1.801	0.815	0.000
LMLM	0	3,111	\$38.185	1.227	0.019	2.902	3.581	0.000
Incoming MMP								
Automation AADC	4,567	6,879	\$38.185	0.555	0.008	1.752	0.981	0.448
Manual ADC	547	583	\$38.185	6.553	0.099	1.309	8.679	0.474
Incoming SCF/Primary								
Automation	5,505	7,085	\$38.185	0.539	0.008	1.766	0.960	0.529
Manual	241	627	\$38.185	6.095	0.092	1.278	7.878	0.189
Incoming Secondaries								
Auto Carrier Route	1,944	7,560	\$38.185	0.505	0.008	1.769	0.901	0.175
Auto 3-Pass DPS	3,042	14,830	\$38.185	0.257	0.004	1.718	0.446	0.136
Auto 2-Pass DPS	14,431	9,401	\$38.185	0.406	0.006	1.737	0.712	1.027
Man Inc Sec Final At Plant	856	575	\$38.185	6.646	0.101	1.278	8.591	0.735
Man Inc Sec Final At DU	304	928	\$38.185	4.114	0.062	1.278	5.318	0.161
Box Section Sort, DPS	713	2,015	\$38.185	1.895	0.029	1.309	2.510	0.179
Box Section Sort, Other	177	1,007	\$38.185	3.790	0.057	1.309	5.020	0.089

Model Cost 1/	5.193
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DPS % 2/	80.07%
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Sources

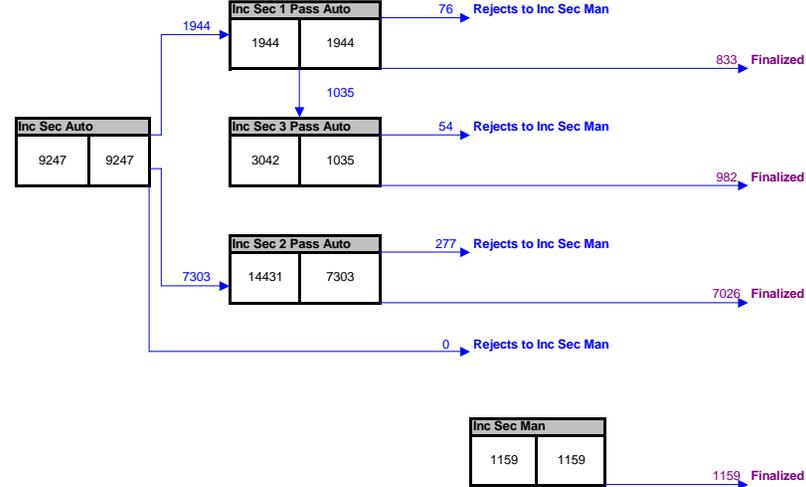
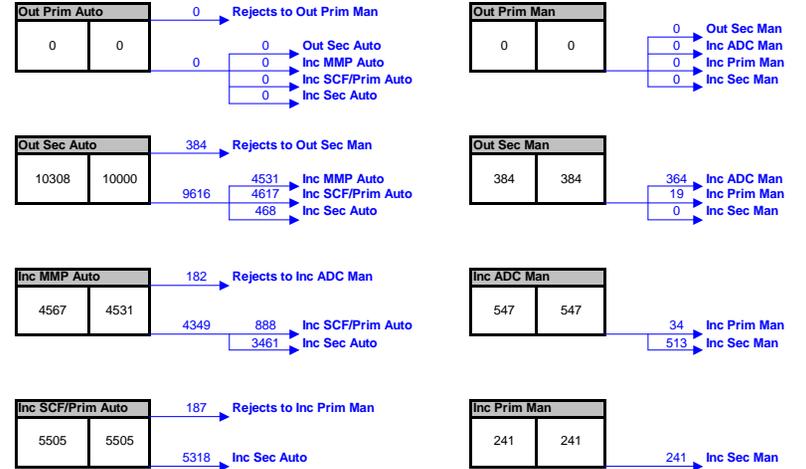
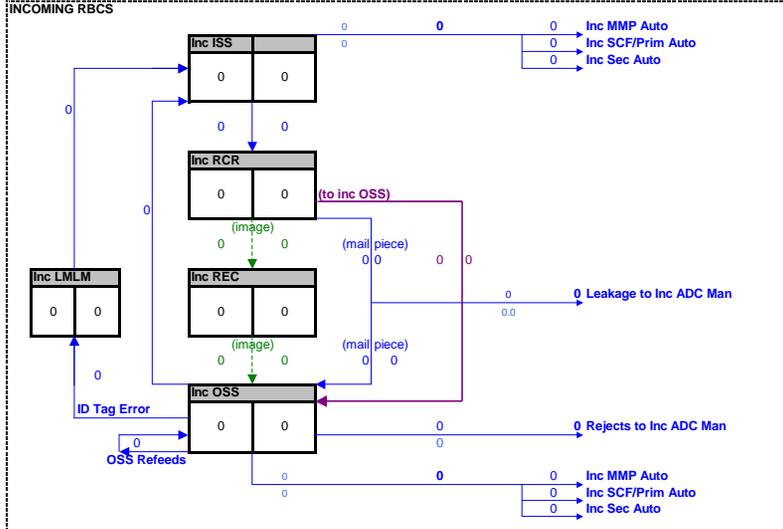
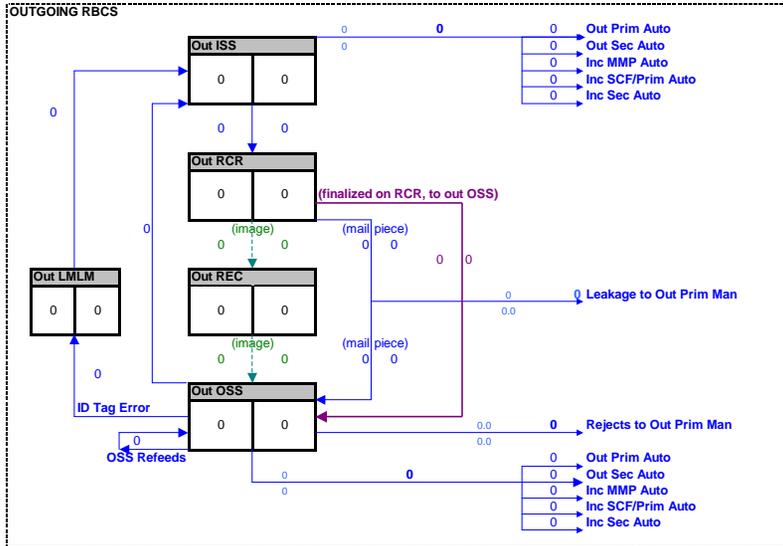
- [1]: From Model Spreadsheet, page 11.
 - [2]: Productivity Spreadsheet.
 - [3]: Wage Rate and Piggyback Spreadsheet.
 - [4]: [3] x [2] / 100.
 - [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
 - [6]: Wage Rate and Piggyback Spreadsheet.
 - [7]: [4] x [6] + [5].
 - [8]: [1] * ([7] / 10,000).
- 1/: Sum of [8].

FIRST-CLASS AUTOMATION MIXED-AADC PRESORTED LETTERS MAIL FLOW MODEL

PCS IN = 10000

PCS OUT = 10000

ENTRY POINTS:					
Out ISS	0	Inc ISS	0	Inc ADC Man	0
Out RCR	0	Inc MMP Auto	0	Inc SCF/Prim Man	0
Out Prim Auto	0	Inc SCF/Prim Auto	0	Inc SCF/Prim Auto	0
Out Sec Auto	10000	Inc Sec Auto	0	Inc Sec Man	0
Out Prim Man	0				
Out Sec Man	0				



**FIRST-CLASS AUTOMATION MIXED-AADC PRESORTED LETTERS, IF NOT PREBARCODED OR PRESORTED
COST SHEET**

Total Pieces 10,000

	TPH [1]	Pieces Per Hour [2]	Wage Rate [3]	Direct Cents Per Piece [4]	Premium Pay Adjust [5]	Piggyback Factor [6]	Total Cents Per Piece [7]	Weighted Cents Per Piece [8]
Entry Activities								
Bundle Sorting								
Outgoing RBCS								
ISS	10,073	6,856	\$38.185	0.557	0.008	2.064	1.158	1.167
RCR	1,331	---	--	--	--	--	0.094	0.013
REC	288	787	\$22.086	2.806	0.042	1.370	3.888	0.112
OSS	1,350	9,370	\$38.185	0.408	0.006	1.751	0.720	0.097
LMLM	27	3,111	\$38.185	1.227	0.019	2.902	3.581	0.010
Outgoing Primary								
Automation	307	8,461	\$38.185	0.451	0.007	1.739	0.792	0.024
Manual	92	408	\$38.185	9.371	0.142	1.278	12.113	0.111
Outgoing Secondary								
Automation	2,798	9,157	\$38.185	0.417	0.006	1.749	0.736	0.206
Manual	121	650	\$38.185	5.875	0.089	1.278	7.594	0.092
Incoming RBCS								
ISS	0	4,441	\$38.185	0.860	0.013	2.064	1.788	0.000
RCR	0	---	--	--	--	--	0.094	0.000
REC	0	787	\$22.086	2.806	0.042	1.370	3.888	0.000
OSS	0	8,510	\$38.185	0.449	0.007	1.801	0.815	0.000
LMLM	0	3,111	\$38.185	1.227	0.019	2.902	3.581	0.000
Incoming MMP								
Automation AADC	1,814	6,879	\$38.185	0.555	0.008	1.752	0.981	0.178
Manual ADC	199	583	\$38.185	6.553	0.099	1.309	8.679	0.173
Incoming SCF/Primary								
Automation	5,506	7,085	\$38.185	0.539	0.008	1.766	0.960	0.529
Manual	236	627	\$38.185	6.095	0.092	1.278	7.878	0.186
Incoming Secondaries								
Auto Carrier Route	2,007	7,560	\$38.185	0.505	0.008	1.769	0.901	0.181
Auto 3-Pass DPS	3,140	14,830	\$38.185	0.257	0.004	1.718	0.446	0.140
Auto 2-Pass DPS	14,895	9,401	\$38.185	0.406	0.006	1.737	0.712	1.060
Man Inc Sec Final At Plant	646	575	\$38.185	6.646	0.101	1.278	8.591	0.555
Man Inc Sec Final At DU	229	928	\$38.185	4.114	0.062	1.278	5.318	0.122
Box Section Sort, DPS	736	2,015	\$38.185	1.895	0.029	1.309	2.510	0.185
Box Section Sort, Other	154	1,007	\$38.185	3.790	0.057	1.309	5.020	0.078

Model Cost 1/	5.216
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DPS % 2/	80.07%
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Sources

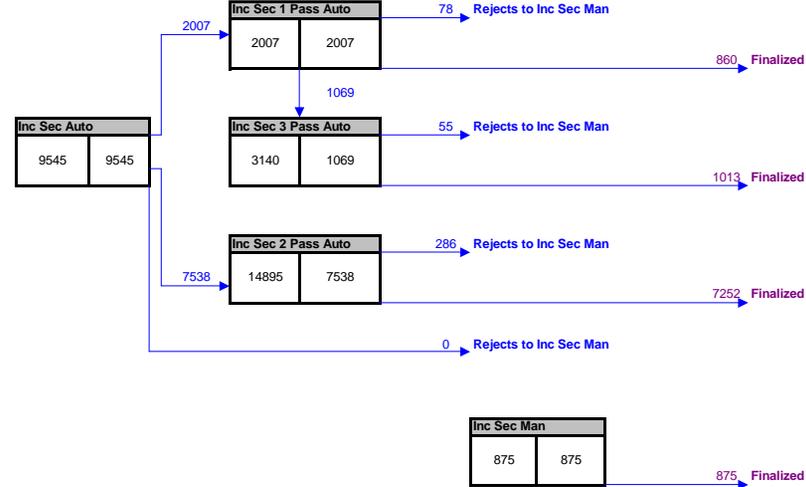
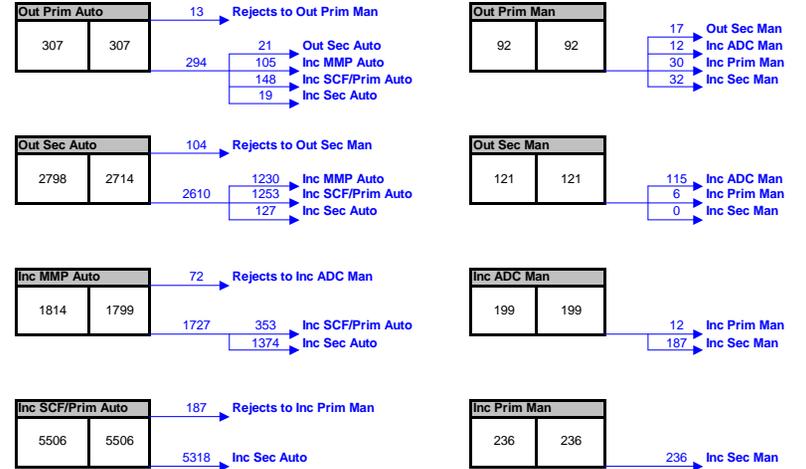
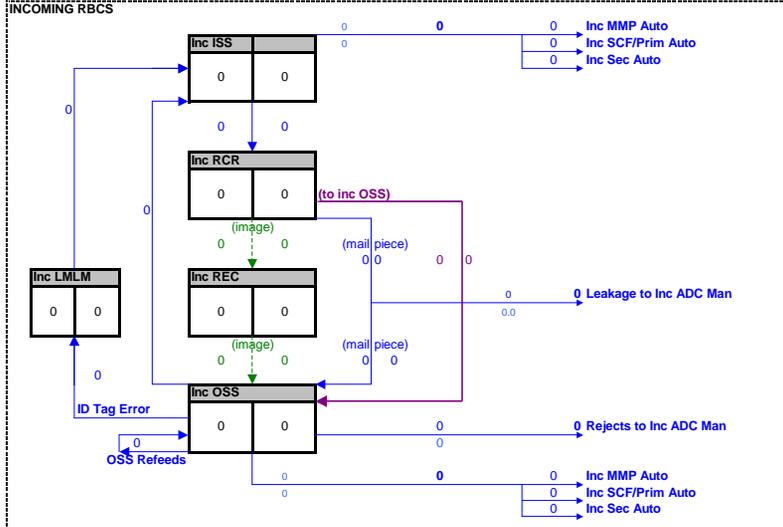
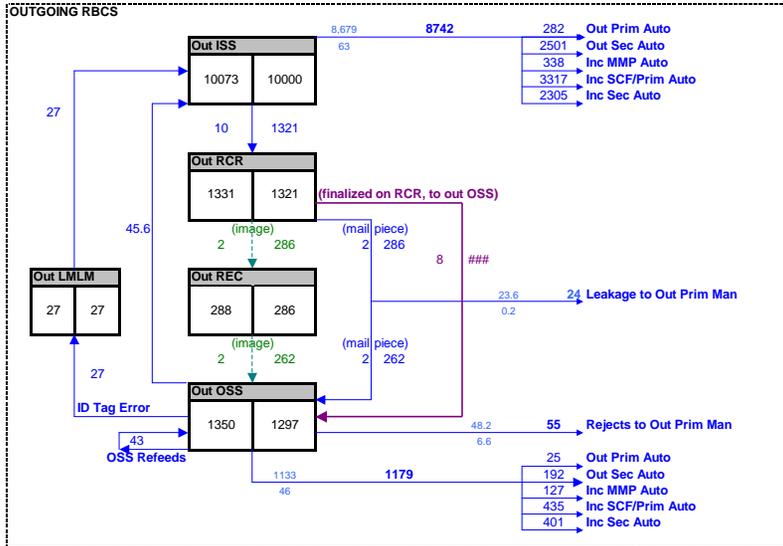
- [1]: From Model Spreadsheet, page 13.
 - [2]: Productivity Spreadsheet.
 - [3]: Wage Rate and Piggyback Spreadsheet.
 - [4]: [3] x [2] / 100.
 - [5]: [4] x [premium pay factor (Wage Rate and Piggyback) - 1]
 - [6]: Wage Rate and Piggyback Spreadsheet.
 - [7]: [4] x [6] + [5].
 - [8]: [1] * ([7] / 10,000).
- 1/: Sum of [8].

FIRST-CLASS AUTOMATION MIXED-AADC PRESORTED LETTERS, IF NOT PREBARCODED OR PRESORTED MAIL FLOW MODEL

PCS IN = 10000

PCS OUT = 10000

ENTRY POINTS:			
Out ISS	10000	Inc ISS	0
Out RCR	0	Inc MMP Auto	0
Out Prim Auto	0	Inc SCF/Prim Auto	0
Out Sec Auto	0	Inc Sec Auto	0
Out Prim Man	0	Inc ADC Man	0
Out Sec Man	0	Inc SCF/Prim Man	0
		Inc Sec Man	0



ACCEPTANCE RATE SUMMARY

<u>Operation</u>	<u>Percent</u>	
MLOCR-ISS Accept Rate	86.79%	1/
MLOCR-ISS/RCR Machine Printed	96.40%	1/
OSS		
Finalized	87.36%	2/
ISS Refeeds	3.51%	2/
OSS Refeeds	3.32%	2/
LMLM	2.10%	2/
Manual	3.71%	2/
Out Prim Auto	95.76%	2/
Out Sec Auto	96.16%	2/
Inc MMP Auto	95.98%	2/
Inc SCF/Prim Auto	96.60%	2/
Inc Sec 1 Pass Auto	96.10%	2/
Inc Sec 2 Pass Auto - Pass 1	97.61%	2/
Inc Sec 2 Pass Auto - Pass 2	98.56%	2/
Inc Sec 3 Pass Auto - Pass 1	97.61%	2/
Inc Sec 3 Pass Auto - Passes 2,3	98.56%	2/

Sources

1/: Docket No. R2001-1, USPS LR-J-60

2/: Docket No. R2005-1, USPS LR-K-68

BY 2005 MODS VOLUMES

Oper No.	Description	[1] MODS Volume	[2] % Volume	
OUTGOING OSS				
971	Outgoing Primary OSS - MPBCS	2,409,649,300	10.26%	} 10.65%
972	Outgoing Secondary OSS - MPBCS	91,516,500	0.39%	
271	Outgoing Primary OSS - DBCS	20,440,306,100	87.07%	} 89.35%
272	Outgoing Secondary OSS - DBCS	533,047,300	2.27%	
Total		23,474,519,200	100.00%	
OUTGOING PRIMARY BCS				
871	Outgoing Primary - MPBCS	270,105,000	1.93%	
891	Outgoing Primary - DBCS	13,736,625,600	98.07%	
Total		14,006,730,600	100.00%	
OUTGOING SECONDARY BCS				
872	Outgoing Secondary - MPBCS	916,249,300	9.62%	
892	Outgoing Secondary - DBCS	8,606,422,700	90.38%	
Total		9,522,672,000	100.00%	
INCOMING OSS				
973	Incoming MMP OSS - MPBCS	283,254,300	16.35%	} 50.39%
974	Incoming SCF OSS - MPBCS	396,695,800	22.90%	
975	Incoming Primary OSS - MPBCS	193,056,500	11.14%	} 49.61%
273	Incoming MMP OSS - DBCS	374,193,100	21.60%	
274	Incoming SCF OSS - DBCS	390,798,700	22.56%	
275	Incoming Primary OSS - DBCS	94,546,200	5.46%	
Total		1,732,544,600	100.00%	
INCOMING MMP BCS				
873	Incoming MMP - MPBCS	3,694,657,000	11.62%	
893	Incoming MMP - DBCS	28,088,739,100	88.38%	
Total		31,783,396,100	100.00%	
INCOMING BCS				
874	Incoming SCF - MPBCS	7,959,430,900	17.12%	} 22.94%
875	Incoming Primary - MPBCS	2,707,479,200	5.82%	
894	Incoming SCF - DBCS	24,842,143,200	53.42%	} 77.06%
895	Incoming Primary DBCS	10,991,103,900	23.64%	
Total		46,500,157,200	100.00%	
INCOMING SECONDARY CARRIER ROUTE				
876	Incoming Secondary Carrier Route - MPBCS	4,704,638,300	25.07%	
896	Incoming Secondary Carrier Route - DBCS	14,058,285,500	74.93%	
Total		18,762,923,800	100.00%	

Sources

[1]: GFY 2005 MODS Volumes

[2]: Volume in row divided by total volume

Productivities

<u>Description</u>	<u>[1] Average Productivity</u>	<u>[2] Variability Factor</u>	<u>[3] Margin Productiv</u>
Outgoing ISS	6762 [1a]	0.986	6,856
Incoming ISS	4380 [1a]	0.986	4,441
REC	787 [1a]	1.000	787
LMLM	3111 [1a]	1.000	3,111
Outgoing OSS	9256 [1a]	0.988	9,370
Incoming OSS	8406 [1a]	0.988	8,510
Outgoing BCS Primary	8358 [1a]	0.988	8,461
Outgoing BCS Secondary	9045 [1a]	0.988	9,157
Incoming BCS MMP	6795 [1a]	0.988	6,879
Incoming BCS SCF/Primary	6999 [1a]	0.988	7,085
Incoming BCS Secondary Carrier Route(1 Pass)	7468 [1a]	0.988	7,560
Incoming BCS Secondary DPS (2 Pass)	9286 [1a]	0.988	9,401
Incoming CSBCS Secondary DPS (3 Pass)	14,649 [1a]	0.988	14,830
Manual Outgoing Primary	400 [1a]	0.982	408
Manual Outgoing Secondary	638 [1a]	0.982	650
Manual ADC(in MMP)	572 [1a]	0.982	583
Manual Incoming SCF/Primary	615 [1a]	0.982	627
Manual Incoming Secondary, MODS Site	564 [1a]	0.982	575
Manual Incoming Secondary Non MODS Sites	911 [1b]	0.982	928
P.O. Box Sort DPS	1,920 [1c]	0.953	2,015
P.O. Box Sort Other	960 [1c]	0.953	1,007
Tray Opening Unit Bundle Sorting	119 [1d]	0.988	120

	<u>[4] Variability</u>	
BCS/ (BCS - Other than CBCS/DBCS)	0.988	(Average of BCS/DBCS cost poc)
CBCS/DBCS	0.988	(Average of BCS/DBCS cost poc)
OCR	0.986	
MANL	0.982	
LDC 15 - RBCS	1.000	
1OPBULK Opening Unit - BBM	0.988	
LDC 44 (Post Office Box Distribution)	0.953	

Sources

[1]: Data Source for Average Productivities

[1a]: USPS-LR-L-56

[1b]: Docket No. MC95-1, Exhibit USPS-T-10F, page 1, manual non-automated sites

[1c]: Docket No. MC95-1, Exhibit USPS-T-10J, page 2

[1d]: Docket No. MC95-1, Exhibit USPS-T-10B, page 1, column 1

[2]: From [4] below. Some are weighted averages.

[3]: [2] / [1]

[4]: USPS LR-L-100, Table 1

MISCELLANEOUS FACTORS

<u>Description</u>	<u>Value</u>
RBCS leakage rate	8.26% 1/
RCR finalization rate	78.39% 1/
RCR cost per image (cents)	0.094 2/
Auto carrier route presort % to CSBCS site	55.40% 3/
Finalized at least to carrier route at plant	73.81% 4/
Post Office Box destination	8.90% 5/
Nonmachinable single-piece letters % accept	75.00% 6/

Automation Incoming Secondaries	Percent	7/
Delivery Unit (ZIP Code)	0.00%	
Carrier Route	9.38%	
3-Pass DPS (CSBCS)	11.65%	
2-Pass DPS (DBCS)	78.97%	
Total	100.00%	

Sources

- 1/: FY 05 RBCS Data
- 2/: RCR Costs from USPS-LR-L-98 / FY05 RCR images processed
- 3/ CBCIS percent / total non-DBCS incoming secondary percentages
- 4/: Docket No. R2000-1, USPS-T-24A
- 5/: Docket No. MC95-1, USPS-T-10I
- 6/: Docket No. R2000-1, Tr. 22/10162 at 16
- 7/: FY 05 F.A.S.T. Data

Presort Letters Mail Flow Densities

From Operation	Refeeds	Outgoing		Incoming			Total
		Primary	Secondary	Mgd Mail Program	SCF/Primary	Inc Sec	
Out ISS Auto		3.22%	28.61%	3.86%	37.94%	26.36%	100.00%
Out OSS Auto		2.12%	16.26%	10.74%	36.88%	34.00%	100.00%
Out Prim Auto	0.05%		7.29%	35.74%	50.38%	6.59%	100.00%
Out Sec Auto	3.08%			47.12%	48.01%	4.87%	100.00%
Inc ISS Auto				2.41%	32.39%	65.19%	100.00%
Inc OSS Auto				0.92%	20.28%	78.81%	100.00%
Inc MMP Auto	0.79%				20.43%	79.57%	100.00%
Out Prim Man			18.86%	12.81%	33.18%	35.15%	100.00%
Out Sec Man				94.94%	5.06%	0.00%	100.00%
Inc ADC Man					6.18%	93.82%	100.00%

Source

Docket No. R2000-1, USPS-T-24, Workpaper 1, Page 2 and page 35

Wage Rates and Piggyback Factors

<u>WAGE RATES</u>	<u>VALUE</u>	
Remote Encoding Centers (REC)	\$22.086	1/
Other Mail Processing	\$38.185	1/
Premium Pay Adjustment Factor (presort)	1.015	2/
Premium Pay Adjustment Factor (single-piece)	1.012	2/

<u>EQUIPMENT DESCRIPTION</u>	<u>VALUE</u>	
MLOCR	2.064	3/
REC	1.370	3/
LMLM	2.902	3/
MPBCS	1.865	3/
DBCS	1.737	3/
CSBCS	1.718	3/
Manual	1.278	3/
Manual P.O. Box	1.309	3/
Tray Opening Unit Bundle Sorting	1.320	3/

<u>OPERATION DESCRIPTION</u>	<u>VALUE</u>	
Outgoing ISS	2.064	5/
Outgoing REC	1.370	5/
Outgoing OSS	1.751	4/
Outgoing LMLM	2.902	5/
Outgoing Prim Auto	1.739	4/
Outgoing Prim Man	1.278	5/
Outgoing Sec Auto	1.749	4/
Outgoing Sec Man	1.278	5/
Incoming ISS	2.064	5/
Incoming REC	1.370	5/
Incoming OSS	1.801	4/
Incoming LMLM	2.902	5/
Incoming MMP Auto	1.752	4/
Incoming ADC Man	1.309	5/
Incoming SCF/Prim Auto	1.766	4/
Incoming SCF/Prim Man	1.278	5/
Incoming 5-Digit Barcode Sort	1.766	5/
Incoming Sec Auto Carrier Route	1.769	4/
Incoming Sec Auto 3-Pass DPS	1.718	5/
Incoming Sec Auto 2-Pass DPS	1.737	5/
Man Inc Sec Final At Plant	1.278	5/
Man Inc Sec Final At DU	1.278	5/
Box Section Sort, DPS	1.309	5/
Box Section Sort, Other	1.309	5/
Tray Opening Unit Bundle Sorting	1.320	5/

Sources

1/: [PRC-LR-7](#)

2/: [PRC-LR-7](#)

3/: [PRC-LR-10](#)

4/: These factor are the the weighted average of MPBCS and DBCS piggyback factors using volume percentages in "BY 05 MODS" spreadsheet.

5/: Linked to appropriate machine piggyback factor above