

Derivation of First-Class Workshared Cost Savings

I. PREFACE

A. Purpose and Content

MMA-FY07-1 corrects the Postal Service's First-Class Mail Presort letters mail processing unit cost estimates. The mail processing unit cost savings are combined with the corrected delivery cost savings developed in MMA-FY07-2 to obtain the total workshared-related cost savings for each presort category.

B. Predecessor Document

USPS-FY07-10

C. Methodology

The workbook utilizes the Postal Service's methodology, including all of the input data that has been updated from the Test Year in R2006-1 to PFY 2007. There is one significant change to the manner in which the model-derived unit costs are reconciled to the CRA-derived unit costs. Because the models severely understate the simulation of the processing of non-prebarcoded letters¹ most notably within the Remote Bar Code System (RBCS), two CRA Proportional Adjustment factors have been applied separately – one for letters that are prebarcoded and a separate factor for letters that are non-prebarcoded. The methodology employed is similar to that used by MMA Witness Bentley on page 3 of MMA-LR-1 in Docket No. R2006-1. The current methodology takes into account the revised cost pool designations provided by the Postal Service and adopted from the Commission's R2006-1 Opinion.

D. Inputs/Outputs

Inputs:

USPS0FY07-7-Cost Segment 3 Cost Pools and Other Information

USPS-FY07-14-Mail Characteristics Study

USPS-FY07-19-Delivery Costs by Shape

USPS-FY07-23-MODS Productivities

¹ As demonstrated by adjusting the entry point within the models, non-prebarcoded letters are shown to cost less to process than prebarcoded letters. Such a result is implausible and the Postal Service has failed to recognize, let alone correct this problem.

USPS-FY07-24 -Non-operation specific piggyback factors

USPS-FY07-25- Mail Processing Piggyback Factors (Operation Specific)

USPS-FY07-26-Mail Processing Costs by Shape

MMA-FY07-2 – FCM Delivery Cost Savings

II. ORGANIZATION

MMA-FY07-1 starts with the Postal Service's USPS-FY07-10 as revised 1/18/08. To apply the two separate CRA Proportional Adjustment factors, a new tab entitled "CORRECTED PRESORTED LETTERS SUM" has been added to replace the original tab entitled "PRESORTED LETTERS SUM". Using the corrected page, a new tab entitled "CORRECTED NEW SUMMARY" replaces the original tab entitled "NEW SUMMARY". Other tabs have been incorporated to provide various means of comparison between the Postal Service's derived cost savings and the corrected cost savings. All of the additional pages (12 pages in all) have tabs that are highlighted. Only the highlighted pages are numbered and identified as being part of MMA-FY07-1.

MMA-FY07-1 also provides the mail flow for three additional types of mail categories: BMM letters, which are assumed to be hand-addressed, BMM letters, which are assumed to be prebarcoded and NAMMA letters, which are assumed to be prebarcoded. The results from these models are tabulated on a sheet entitled "HIERARCHY OF UNIT COSTS" to illustrate how the relationships among the corrected unit costs provided by MMA-FY07-1 are more reasonable than those that result from the Postal Service's analysis.

III. SUMMARY OF RESULTS

Table 1 shows the Postal Service's unit cost savings compared to the Corrected cost savings.

To illustrate the problems associated with the Postal Service's failure to incorporate necessary corrections, MMA-FY07-1 develops a "hierarchy of unit costs" that shows the relationships among the resulting unit costs as a test for reasonableness. Table II clearly shows that the corrections provided by MMA-FY07-1 provide results that make much more sense than the Postal Service's results. First, as shown in the highlighted

Table I
Comparison of USPS-Derived and Corrected
First-Class Workshared Cost Savings
(Cents)

First-Class Letter Category	USPS Cost Savings	Corrected Cost Savings	Change in Cost Savings
Benchmark (BMM)			
Nonautomation Mach	5.2	0.4	(4.8)
Mixed AADC	5.1	6.0	0.9
AADC	6.9	7.7	0.8
3 Digit	7.4	8.1	0.8
5 Digit	9.5	10.2	0.7

Table II
Comparison of USPS and Corrected
First-Class Adjusted Workshared-Related Unit Mail Processing Costs
(Cents)

First-Class Letter Category	USPS			Corrected		
	Model-Derived WR Unit Cost	CRA Prop Adj Fact	Adjusted WR Unit Cost	Model-Derived WR Unit Cost	CRA Prop Adj Fact	Adjusted WR Unit Cost
HAND MML/BMM	6.101	2.394	14.604	6.101	2.394	14.604
Printed MML/BMM	4.490	2.394	10.747	4.490	2.394	10.747
NAMMA	4.498	1.617	7.271	4.498	2.394	10.766
Prebarcoded MML/BMM	4.612	2.394	11.039	4.612	1.573	7.254
Prebarcoded NAMMA	4.620	1.617	7.469	4.620	1.573	7.267
MAADC	4.279	1.617	6.917	4.279	1.573	6.729
AADC	3.281	1.617	5.303	3.281	1.573	5.160
3-Digit	3.014	1.617	4.872	3.014	1.573	4.740
5-Digit	1.789	1.617	2.893	1.789	1.573	2.814

HAND MML/BMM = Hand addressed single piece metered mail letters (or BMM)

Printed MML/BMM = Printed addressed single piece metered mail letters (or BMM)

NAMMA = NonAutomation Machinable Mixed AADC/AADC letters

Prebarcoded MML/BMM = Prebarcoded printed single piece metered mail (or BMM)

Prebarcoded NAMMA = Prebarcoded NonAutomation Machinable Mixed AADC/AADC Letters

MAADC = Automation Mixed AADC letters

AADC = Automation AADC letters

3-Digit = Automation 3-digit letters

5-Digit = Automation 5-digit letters

boxes, prebarcoded BMM should cost less to process than non-prebarcoded BMM, but this is not the case according to the Postal Service's analysis. A similar conclusion can be drawn for NAMMA letters. Second, BMM and NAMMA should cost about the same to process but this is not what the Postal Service's analysis shows. According to the Postal Service analysis BMM letters cost 48% more to process than NAMMA letters. If this were true, it would be entirely inappropriate to use NAMMA delivery costs as a proxy for BMM delivery costs.²

² The Postal Service uses NAMMA as a proxy for BMM delivery costs while showing, at the same time, that BMM mail processing costs are 48% higher than NAMMA mail processing costs.