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Derivation of First-Class Delivery Cost Savings

I. PREFACE

A. Purpose and Content

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

B. Predecessor Documents

UDCmodel071211

R2006-1, USPS-LR-L-67, UDCInputs "DPS%'s"

C. Methodology

This 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. Rather than utilize the theoretical model-derived delivery point sequence percentages (DPS %s), MMA-FY07-2 substitutes the same theoretical DPS %s but reconciles them to the actual DPS %s provided by the Postal Service in Docket No. R 2006-1.

It is clear that the model-derived DPS %s are overstated for two reasons. First, the computed weighted averages of the model-derived DPS %s are much higher than the actual figures obtained from the Postal Service's data sources. Second, since the models understate actual costs, it is likely that they also overstate the amount of mail that can be processed by automation. This in turn results in DPS %s that are overstated.

Since the Postal Service's derivation of unit delivery costs utilizes the DPS %s as an important distribution key for de-averaging in-office delivery costs, it is extremely important to use accurate DPS %s. Therefore, reconciling the theoretical DPS %s to known information is clearly superior. Moreover, the results make much more sense.

The methodology for deriving the DPS %s that are reconciled to actual data is the same methodology that MMA Witness Bentley used on page 2 of Library Reference MMA-LR-1 in Docket No. R2006-1.

D. Inputs/Outputs

Inputs:

USPS-FY07-6-"B" Workpapers
USPS-FY07-14 -Mail Characteristics Study
USPS-FY07-24 -Non-operation specific piggyback factors
USPS-FY07-27 -In-Office Cost System (IOCS) Statistical and Computer Documentation
USPS-FY07-28 -City Carrier Cost System (CCCS) Statistical and Computer Documentation
USPS-FY07-29 -Rural Carrier Cost System (RCCS) Statistical and Computer Documentation
MMA-FY07-1 – FCM Delivery Cost Savings (DPS %s)

Outputs:

MMA-FY07-1 – FCM Delivery Cost Savings

II. ORGANIZATION

MMA-FY07-2 starts with the Postal Service's UDCmodel071211. The only change is shown on highlighted tab "17.Corrected In-Office Detail". This tab actually

replaces the original "17.In-Office Detail". On this page, the DPS %s are corrected as discussed above. The source of the correct DPS %s is a separate highlighted tab entitled "Corrected DPS %s". The Postal Service's delivery cost model is then executed exactly as before, except for the substitution of the corrected DPS %s. The results are shown on highlighted tab "1.Corrected Table 1". There is an additional highlighted sheet that compares the results.

Overall, there are 4 highlighted tabs that constitute MMA-FY07-2.

III. SUMMARY OF RESULTS

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

Table I

Comparison of USPS-Derived and Corrected First-Class Delivery Unit Cost Savings (Cents)

First-Class Letter Category	USPS Delivery Cost Savings	Corrected Delivery Cost Savings	Change in Delivery Cost Savings
Nonautomation Mach (All Presort)	0.1	0.0	(0.0)
Mixed AADC	(0.1)	0.5	0.6
AADC	0.1	0.7	0.6
3 Digit	0.1	0.7	0.6
5 Digit	0.3	0.8	0.5

The Postal Service's use of overstated DPS %s results in an inappropriate transfer of NonAutomation in-office delivery costs to the Automation categories. This transfer of costs causes the Postal Service's derived unit costs for NonAutomation letters to be understated, while, at the same time, causes Automation delivery costs to be overstated – providing improbable results. It makes no sense that NAMMA letters

cost less to deliver than Automation Mixed AADC letters. Yet, this is precisely what the Postal Service's negative savings implies. This negative savings is highlighted in yellow in Table I.

The crux of the Postal Service's problem is the use of overstated DPS %s to de-average in-office delivery costs. Table II shows just how inaccurate the Postal Service's DPS %s really are. Since manually sorted letters are so much more expensive compared to DPSed letters, every one percent change in the DPS % overstatement has an enormous impact on the distribution of costs. As highlighted in Table II, the theoretical NonAutomation DPS % used by the Postal Service (86.93%) is almost 10 percent higher than the actual DPS %.(77.22%).

Table II

Comparison of USPS Theoretical DPS %s and DPS %s Reconciled To Actual DPS %s Used to Derive Delivery Cost Savings

FIRST-CLASS PRESORT LETTERS	From USPS Models	Reconciled Actual DPS %s	DPS % Change
Nonautomation -- Nonmach Mixed ADC	0.00%	0.00%	0.00%
Nonautomation -- Nonmach ADC	0.00%	0.00%	0.00%
Nonautomation -- Mach Mixed AADC	87.92%	78.10%	9.82%
Nonautomation -- Mach AADC	87.92%	78.10%	9.82%
Nonautomation -- Nonmach 3-Digit	0.00%	0.00%	0.00%
Nonautomation -- Nonmach 5-Digit	0.00%	0.00%	0.00%
Nonautomation -- Mach 3-Digit	89.10%	79.15%	9.95%
Nonautomation -- Mach 5-Digit	89.10%	79.15%	9.95%
Nonautomation Total	86.93%	77.22%	9.71%
Automation Mixed AADC	86.93%	83.22%	3.72%
Automation AADC	88.55%	84.77%	3.79%
Auto 3-Digit Letters	88.86%	85.06%	3.80%
Auto 5-Digit Letters CSBCS/Manual Sites	54.43%	52.10%	2.33%
Auto 5-Digit Letters Other Sites	98.46%	94.25%	4.21%
Auto CR Letters	55.65%	53.27%	2.38%
Auto Total	89.05%	85.24%	3.81%
Presort Letters Subtotal	88.98%	85.00%	3.99%
Auto 5-Digit Letters	90.22%	86.36%	3.86%