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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 24

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Washington, D.C. 20005
(202) 842-0034

1 BEFORE THE
2 POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :

5 POSTAL RATE AND FEE CHANGES : Docket No. R97-1

6 - - - - - X

7

8 Third Floor Hearing Room
9 Postal Rate Commission
10 1333 H Street, N.W.
11 Washington, D.C. 20268

12

13 Volume 24

14 Monday, February 23, 1998

15

16 The above-entitled matter came on for hearing,
17 pursuant to notice, at 9:30 a.m.

18

19 BEFORE:

20 HON. EDWARD J. GLEIMAN, CHAIRMAN

21 HON. W. H. "TREY" LeBLANC, III, COMMISSIONER

22 HON. GEORGE W. HALEY, COMMISSIONER

23 HON. GEORGE A. OMAS, COMMISSIONER

24

25

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Washington, D.C. 20005
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1 APPEARANCES:

2 On behalf of the United States Postal Service:

3 SUSAN DUCHEK, ESQUIRE

4 ERIC KOETTING, ESQUIRE

5 RICHARD COOPER, ESQUIRE

6 MICHAEL TIDWELL, ESQUIRE

7 ANNE REYNOLDS, ESQUIRE

8 DAVID RUBIN, ESQUIRE

9 KENNETH N. HOLLIES, ESQUIRE

10 SCOTT L. REITER, ESQUIRE

11 ANTHONY ALVERNO, ESQUIRE

12 United States Postal Service

13 475 L'Enfant Plaza West, SW

14 Washington, D.C. 20260

15

16 On behalf of American Business Press:

17 DAVID STRAUS, ESQUIRE

18 Thompson Coburn

19 700 14th Street, NW, Suite 900

20 Washington, D.C. 20005

21 (202) 508-1013

22 fax (202) 508-1010

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Association of Alternate Postal Systems:

3 BONNIE S. BLAIR, ESQUIRE

4 Thompson Coburn

5 700 14th Street, NW, Suite 900

6 Washington, D.C. 20005

7 (202) 508-1003

8 fax (202) 508-1010

9

10 On behalf of Nashua Photo, Inc.; District Photo, Inc.;

11 Mystic Color Lab; Seattle FilmWorks, Inc.; ValPak Direct

12 Marketing Systems, Inc.; ValPak Dealers' Association; Carol

13 Wright Promotions:

14 WILLIAM J. OLSON, ESQUIRE

15 ALAN WOLL, ESQUIRE

16 JOHN S. MILES, ESQUIRE

17 William J. Olson, P.C.

18 8180 Greensboro Drive, Suite 1070

19 McLean, VA 22102-3823

20 (703) 356-5070

21 fax (703) 356-5085

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Readers Digest Association, Parcel Shippers
3 Association:

4 TIMOTHY J. MAY, ESQUIRE

5 Patton Boggs, LLP

6 2550 M Street, NW

7 Washington, D.C. 20037

8 (202) 457-6050

9

10 On behalf of Advertising Mail Marketing Association:

11 IAN D. VOLNER, ESQUIRE

12 Venable, Baetjer, Howard & Civiletti

13 1201 New York Avenue, NW

14 Washington, D.C. 20005

15 (202) 962-4814

16 fax (202) 962-8300

17

18 On behalf of the Dow Jones & Company, Inc.:

19 SAM BEHRENDT, ESQUIRE

20 MICHAEL F. McBRIDE, ESQUIRE

21 LeBoeuf, Lamb, Greene & Macrae

22 1875 Connecticut Avenue, NW

23 Washington, D.C. 20009

24 (202) 986-8018

25 fax (202) 986-8102

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Major Mailers Association:

3 RICHARD LITTELL, ESQUIRE

4 1220 19th Street, NW, Suite 400

5 Washington, D.C. 20036

6 (202) 466-8260

7

8 On behalf of the Office of Consumer Advocate:

9 SHELLEY S. DREIFUSS, ESQUIRE

10 KENNETH E. RICHARDSON, ESQUIRE

11 Office of the Consumer Advocate

12 Postal Rate Commission

13 1333 H Street, NW, Suite 300

14 Washington, D.C. 20268

15

16 On behalf of the United Parcel Service:

17 JOHN E. MCKEEVER, ESQUIRE

18 Piper & Marbury

19 3400 Two Logan Square

20 18th and Arch Streets

21 Philadelphia, PA 19103

22 (215) 656-3310

23 fax (215) 656-3301

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Hallmark Cards, Incorporated:

3 DAVID F. STOVER, ESQUIRE

4 2070 S. Columbus Street, Suite 1B

5 Arlington, VA 22206

6 (703) 998-2568

7 fax (703) 998-2987

8

9 On behalf of ADVO, Inc.:

10 JOHN M. BURZIO, ESQUIRE

11 THOMAS W. McLAUGHLIN, ESQUIRE

12 Burzio & McLaughlin

13 1054 31st Street, NW, Suite 540

14 Washington, D.C. 20007

15 (202) 965-4555

16 fax (202) 965-4432

17

18 On behalf of Time Warner, Inc.:

19 JOHN M. BURZIO, ESQUIRE

20 TIMOTHY L. KEEGAN, ESQUIRE

21 1054 31st Street, NW, Suite 540

22 Washington, D.C. 20007

23 (202) 965-4555

24 fax (202) 965-4432

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Direct Marketers Association:

3 DANA T. ACKERLY, II, ESQUIRE

4 MICHAEL D. BERGMAN, ESQUIRE

5 Covington & Burling

6 1201 Pennsylvania Avenue, NW

7 Washington, D.C. 20016

8 (202) 662-5296

9 fax (202) 778-5296

10

11 On behalf of the Newspaper Association of America:

12 WILLIAM B. BAKER, ESQUIRE

13 ALAN R. JENKINS, ESQUIRE

14 MICHAEL YOURSHAW, ESQUIRE

15 Wiley, Rein & Fielding

16 1776 K Street, NW

17 Washington, D.C. 20006

18 (202) 429-7255

19 fax (202) 429-7049

20

21 ROBERT J. BRINKMANN

22 Newspaper Association of America

23 529 14th Street, NW, Suite 440

24 Washington, D.C. 20045-1402

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the McGraw-Hill Companies, Inc.:

3 TIMOTHY W. BERGIN, ESQUIRE

4 Squire, Sanders & Dempsey

5 1201 Pennsylvania Avenue, NW, Suite 500

6 P.O. Box 407

7 Washington, D.C. 20044

8 (202) 626-6608

9 fax (202) 626-6780

10

11 On behalf of the Mail Order Association of America:

12 DAVID C. TODD, ESQUIRE

13 Patton Boggs, LLP

14 2550 M Street, NW

15 Washington, D.C. 20037

16 (202) 457-6410

17 fax (202) 457-6513

18

19 On behalf of David B. Popkin:

20 DAVID B. POPKIN

21 P.O. Box 528

22 Englewood, NJ 07631-0528

23 (201) 569-2212

24 fax (201) 569-2864

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Magazine Publishers of America:

3 JAMES R. CREGAN, ESQUIRE

4 Magazine Publishers of America

5 1211 Connecticut Avenue, NW, Suite 610

6 Washington, D.C. 20036

7 (202) 296-7277

8 fax (202) 296-0343

9

10 On behalf of the Alliance of Nonprofit Mailers:

11 JOEL T. THOMAS, ESQUIRE

12 11326 Dockside Circle

13 Reston, VA 20191

14 (703) 476-4646

15 fax (703) 620-2338

16

17 On behalf of the National Newspaper Association:

18 TONDA F. RUSH, ESQUIRE

19 King & Ballon

20 P.O. Box 50301

21 Arlington, VA 22205

22 (703) 534-5750

23 fax (703) 534-5751

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the National Newspaper Association:

3 [continued]

4 SENNY BOONE

5 National Newspaper Association

6 1525 Wilson Boulevard, Suite 550

7 Arlington, VA 22209

8 (703) 907-7900

9

10 On behalf of the National Federation of Nonprofits:

11 CAROLYN EMIGH, ESQUIRE

12 Nonprofit Service Group

13 815 15th Street, NW, Suite 822

14 Washington, D.C. 20005

15 (202) 628-4380

16

17 On behalf of the Florida Gift Fruit Shippers Association:

18 M.W. WELLS, JR., ESQUIRE

19 Maxwell W. Wells, Jr., P.A.

20 105 E. Robinson Street, Suite 201

21 Orlando, FL 32801

22 (407) 422-8250

23 fax (407) 422-8262

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Recording Industry Association of America,
3 and Advertising Mail Marketing Association:

4 N. FRANK WIGGINS, ESQUIRE
5 Venable, Baetjer, Howard & Civiletti, L.L.P.
6 1201 New York Avenue, NW
7 Washington, D.C.
8 (202) 962-4957
9

10 On behalf of Edison Electric Institute:

11 R. BRIAN CORCORAN, ESQUIRE
12 Oliver & Oliver, P.C.
13 1090 Vermont Avenue, NW, Suite 800
14 Washington, D.C. 20005
15 (202) 371-5656
16 fax (202) 289-8113
17

18 On behalf of American Business Press:

19 STEPHEN FELDMAN, ESQUIRE
20 Ramsey, Cook, Looper & Kurlander
21 c/o Thompson Coburn
22 700 14th Street, NW, Suite 900
23 Washington, D.C. 20005
24 (202) 508-1022
25 fax (202) 508-1010

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Douglas F. Carlson:

3 DOUGLAS F. CARLSON

4 P.O. Box 12574

5 Berkeley, CA 94712-3574

6 (510) 597-9995

7

8 On behalf of the Alliance of Non Profit Mailers:

9 DAVID M. LEVY, ESQUIRE

10 Sidley & Austin

11 1722 I Street, NW

12 Washington, D.C. 20006-3704

13 (202) 736-8214

14

15 On behalf of the National Association of Presort Mailers:

16 HENRY HART, ESQUIRE

17 Hazel & Thomas

18 P.O. Box 820

19 Alexandria, VA 22313

20 (703) 838-5153

21 fax (703) 836-8062

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Brooklyn Union Gas Company:

3 MICHAEL HALL, ESQUIRE

4 Cullen & Dykman

5 1225 19th Street, NW

6 Washington, D.C. 20036

7 (202) 223-8890

8

9 On behalf of Niagara Telephone Company:

10 TIMOTHY E. WELCH, ESQUIRE

11 Hill & Welch

12 1330 New Hampshire Avenue, NW, Suite 113

13 Washington, D.C. 20036

14 (202) 775-0070

15 fax (202) 775-9026

16

17 On behalf of the Coalition of Religious Press Associations:

18 JOHN STAPERT

19 Associated Church Press

20 18653 N. 41st Place

21 Phoenix, AZ 85024-3759

22 (602) 569-6371

23 fax (602) 569-6180

24

25

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1	E X H I B I T S [continued]		
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4	Dale A. Mullin, PSA-T-2	13061	13061
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P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue hearings in Docket R97-1. We're scheduled to receive testimony of Douglas Carlson, American Banker Association, et al; Witness Clifton, Nashua District; Mystic, Seattle Witness Haldi; Parcel Shipper Association Witnesses Jellison, Mullin, and Zweig; and Office of Consumer Advocate Collins.

Does any participant have a procedural matter to raise at this point?

[No response.]

CHAIRMAN GLEIMAN: If not, then we will begin today with Dr. Clifton. Mr. Hart, Dr. Clifton is already under oath in this proceeding, and if you would introduce him and enter his direct testimony. I guess it's Mr. Corcoran, I'm sorry, I apologize.

MR. CORCORAN: It's always nice to be confused with a better looking counsel anyway. So, thank you.

[Laughter.]

Whereupon,

JAMES A. CLIFTON,
a witness, was called for examination by counsel for the American Bankers Association, Edison Electric Institute, and the National Association of Presort Mailers and, having been

1 previously duly sworn, was examined and testified as
2 follows:

3 MR. CORCORAN: Good morning, Mr. Clifton, Mr.
4 Chairman, thank you.

5 With me today in our joint presentation is Irv
6 Warden of the American Bank -- excuse me, I'll get it
7 straight, American Banking Association -- what do I have
8 here? Bankers Association and Henry Hart representing NAPM.

9 DIRECT EXAMINATION

10 BY MR. CORCORAN:

11 Q Mr. Clifton, do you have -- excuse me, Dr.
12 Clifton, do you have before you your direct testimony on
13 behalf of American Bankers Association, Edison Electric
14 Institute and National Association of Pre-Sort Mailers
15 marked ABA/EEI/NAPM-T-1 consisting of 46 pages plus four
16 technical appendices, A, B, C, and D?

17 A Yes, I do, Mr. Corcoran.

18 Q And does this package before you reflect your
19 revisions dated February 12, 1998?

20 A Yes.

21 Q Was this testimony including a technical
22 appendices prepared by you or under your supervision?

23 A Yes, it was.

24 Q Do you have any changed to your testimony or the
25 technical appendices?

1 A Not other than the revisions dated February 12.

2 Q Do you adopt ABA/EEI/NAPM-1 as your testimony in
3 this proceeding?

4 A As revised, yes, I do.

5 MR. CORCORAN: Mr. Chairman, I move the admission
6 into evidence of the direct testimony of Dr. James A.
7 Clifton designated as ABA/EEI/NAPM-T-1.

8 CHAIRMAN GLEIMAN: Are there any objection?

9 [No response.]

10 CHAIRMAN GLEIMAN: Hearing none, Dr. Clifton's
11 testimony and exhibits are received into evidence and I
12 direct that they be accepted and that they be transcribed
13 into the record at this point.

14 [Direct testimony and Exhibits of
15 James A. Clifton, ABA/EEI/NAPM-T-1,
16 was received into evidence and
17 transcribed into the record.]

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ABA/EEI/NAPM-T-1

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

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DIRECT TESTIMONY OF
JAMES A CLIFTON
ON BEHALF OF
AMERICAN BANKERS ASSOCIATION
EDISON ELECTRIC INSTITUTE
NATIONAL ASSOCIATION OF PRESORT MAILERS

December 30, 1997

Executive Summary

- My proposed first-ounce rates for workshared First-Class letter mail are based on a cost coverage of ²⁷⁶~~274~~% above test year attributable costs that I construct in my testimony. They are more economically efficient and equitable than the rates proposed by the Postal Service. My proposed rates are:
 - 30 cents for retail presort;
 - 26.1 cents for basic automation;
 - 24.4 cents for 3-digit presort automation;
 - 22.8 cents for 5-digit presort automation; and
 - 22.5 cents for carrier route presort.
- These rates are marginally lower than would be implied by my proposed worksharing discounts, set forth below, because I make an adjustment to the USPS-proposed cost coverage of 283% which results in more efficient and equitable rates. Indeed, considerations of economic efficiency and welfare optimization in rate setting would justify an even lower cost coverage than what I propose here as a first step in rate restructuring and rationalization.
- My conservative, cost-justified worksharing discounts from the USPS-recommended 33 cent rate for a First-Class single piece are: 2.5 cents for retail presort; ^{6.8}~~6.7~~ cents for basic automation; 7.5 cents for 3-digit presort automation; 8.9 cents for 5-digit presort automation; and 9 cents for carrier route presort.
- These discounts are based on corrections made to the roll forward factors in the Postal Service's mail processing and delivery cost models and an application of the Commission's MC95-1 methodology for calculating discounts based on these costs.
- In calculating costs and discounts, and setting rates, for First-Class workshared letter mail, I propose that the Commission adopt a formal procedure in its Opinion and Recommended Decision for evaluating these in light of the costs, "discounts" and rates it proposes for Standard A workshared mail in an effort to achieve

- 1 fairness and balance, as well as economic and organizational efficiency, in rate
- 2 setting.

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1 **I. Autobiographical Sketch**

2
3 My name is James A. Clifton. I am President of the Washington Economics
4 Consulting Group, Inc., (WECG) which I founded this year. WECG is devoted to
5 regulatory and economic policy analysis as well as litigation support services in the
6 areas of antitrust and economic damages.

7
8 Prior to founding WECG, I was associate professor of economics and business at
9 The Catholic University of America from 1992 through 1997. My other academic
10 experience includes Assistant Professor of Economics at the University of Maine -
11 Orono (1975 - 1978) and at Mary Baldwin College (1978 - 1979), where I also served as
12 chair of the economics and business department. I was a visiting professor at
13 Cambridge University during 1977.

14
15 My other professional experience includes three years with the U. S. Chamber of
16 Commerce as a senior regulatory economist (1979 - 1983), three years as Republican
17 Staff Director of the House Budget Committee (1983 - 1986), and four years as President
18 of the Center for Industrial Competitiveness, a non-profit foundation (1986 - 1990). In
19 the consulting arena, I was principal associate at Nathan Associates from 1990 - 1991,
20 an academic affiliate of the Law and Economics Consulting Group from 1992 - 1995,
21 and an independent consultant from 1987-1990 and 1996-1997.

22
23 I received a BA in economics from Cornell University in 1969 and a PHD in
24 economics from the University of Wisconsin - Madison in 1975. At the latter institution,
25 I was a Ford Foundation fellow. I have published occasional research in academic
26 journals including the Cambridge Journal of Economics, Contributions to Political
27 Economy, Business Economics and the Journal of Economic Behavior and Organization.

1 Before this Commission, I have testified on three previous occasions. In 1990 I
2 presented direct testimony on behalf of McGraw-Hill, Inc. in docket R90-1. In the R94-1
3 rate case, I presented rebuttal testimony on behalf of the American Bankers Association,
4 and in MC95-1 I presented direct testimony on behalf of the Greeting Card Association.
5

6 **II. Purpose and Scope: The Development of Rates for First-Class Workshared**
7 **Letter Mail Should Entail Consideration of the Appropriate Levels of Both**
8 **Discounts and Cost Coverage**
9

10 The purpose of my testimony is to develop rates for workshared First-Class
11 letter mail. Historically, developing such rates has never been simple and has been
12 subject to various methodological changes or modifications over time. In this
13 proceeding, the task is even more complex for various reasons. The Postal Service
14 presents: new volume variability analyses, revised modeled cost methods, new
15 estimates of unit delivery costs, and a new costing benchmark. Moreover, the
16 Commission's decisions in Docket No. MC95-1, regarding reclassification, have a
17 demonstrable and growing impact on Postal Service's mail processing and delivery
18 costs. None of these decisions is fully or correctly reflected in the Postal Service's filing.
19 Nor does the Postal Service adequately account for the explosive growth in, and the
20 substantial cost reductions generated by, the conversion from presort to automation
21 First-Class workshared mail.
22

23 Working primarily within the framework of the models presented by the Postal
24 Service, in Section III, I calculate appropriate discount levels based on Cost and
25 Revenue Analysis ("CRA") time series data applied to the Hume and Hatfield models.
26 Among other things, because the Postal Service ignored move update savings, I adjust
27 witness Hume's delivery costs, conservatively, to reflect such savings in the test year.
28 In addition, it was necessary to correct flaws in the Postal Service's roll forward factor
29 for mail processing costs to reflect both historic and projected declining cost trends for

1 First-Class workshared letter mail, a trend which the Postal Service ignored. Based on
2 these more accurate cost estimates, I calculate discounts for presorted FCM using the
3 Commission's current methodology. My proposed rates, set forth in Section IV, reflect
4 appropriate cost coverage levels, including reconsideration of the relative institutional
5 cost burden borne by First-Class workshared mail.

6
7 With regard to the latter, my testimony raises an issue that has been all but
8 forgotten in recent rate cases when it comes to setting the rates for First-Class
9 workshared letter mail. Since its establishment, rate setting for First-Class workshared
10 letter mail has gradually become the largely passive one of simply calculating the
11 appropriate level of discounts from the single-piece rate, regardless of the attributable
12 costs of the workshared mailstream overall relative to First-Class single-piece and
13 comparable mail in the Standard Class A subclasses. The question of what is a fair or
14 economically efficient mark-up above these attributable (or volume variable) costs has
15 not been as significant a factor in the consideration of setting rates as the voluminous
16 analysis and debate over the appropriate level of discounts. The rationale cited for this
17 rate-setting passivity has been that First-Class workshared mail is not a subclass.
18 However, in my expert opinion, the proposed cost coverage of 283% for workshared
19 mail in First-Class leads to extremely inefficient and unfair rates, ones that, arguably,
20 exceed what an efficient monopolist would charge.

21
22 In conclusion, regulatory agencies serve as a surrogate for competition, i.e., to set
23 prices, ceteris paribus, as they would exist in a competitive market. This Commission
24 faces a similar charge -- to set rates that would exist absent the Postal Service's statutory
25 monopoly. To be sure, the Commission must consider various factors; on examination,
26 however, there can be no doubt that Postal Service's proposed rates for workshared
27 FCM abuse that standard, while my rates, even though yielding a high cost coverage
28 and per piece contribution to institutional costs, represent a reasonable, if not complete,
29 first step to mitigate the unfair burden imposed on workshared FCM.

1 **III. The Postal Service's Own Cost Models, Adjusted for Reclassification**
2 **Dynamics and Commission Methodology, Warrant a Worksharing Discount**
3 **of at Least 7.5 Cents for the Key 3-Digit Automation Rate.**

4 **A. First-Class Workshared Mail Costs for USPS Mail Processing and**
5 **Delivery Services have Fallen by 11% Since the Last Rate Case**
6

7 The starting point for the development of worksharing discounts for First-Class
8 letter mail is a comparison of the recent performance of unit cost data from the Postal
9 Service's annual, audited Cost and Revenue Analysis (CRA). Table 1 shows unit
10 attributable costs for First-Class workshared mail for the most recent three years and
11 compares those costs to the First-Class single-piece benchmark, and to workshared
12 Standard A mail, which is similar in physical nature to First-Class workshared mail.
13

14 The most dramatic finding, amplified in Figure 1, is that unit attributable costs
15 have fallen absolutely over the FY1994 - FY1996 period for First-Class workshared mail
16 while they have increased for First-Class single-piece and Standard A regular mail. For
17 the latest fiscal year available, FY1996, the full cost difference between a First-Class
18 single-piece and workshared letter is 15.5 cents. The fact of falling unit costs for First-
19 Class workshared mail since the last rate case raises the question of whether
20 fundamental rate restructuring is warranted in this case. It offers a significant
21 opportunity for the Commission to be objective and fair in setting discounts (and rates)
22 for this mailstream relative to other workshared mail, notably Standard A Regular and
23 ECR.
24

25 Table 2 compares the recent unit cost behavior from the CRA to both the USPS
26 recalibration of FY1996 unit costs to base year 1996 unit costs and their roll forward to
27 test year 1998 unit costs. The Postal Service's roll forward cost presentation in R97-1

Table 1
Unit Attributable Cost
(Cents per Piece)

	Fiscal Year <u>1994</u>	Fiscal Year <u>1995</u>	Fiscal Year <u>1996</u>	<u>Percentage Change</u>	
				<u>FY1996/ FY 1994</u>	<u>FY1996/ FY 1995</u>
First Class Mail					
Letters and Parcels	23.4	25.2	26.1	+11.5%	+3.6%
Presort Letters and Parcels	11.9	11.0	10.6	-10.9%	-3.6%
Standard A (Old Third Class)					
Commercial Regular	14.2	14.7	14.6	+2.8%	-0.7%
Commercial ECR	6.1	6.4	6.4	+4.9%	0.0%
Commercial Total	10.0	10.5	10.6	+6.0%	+1.0%

Source: USPS, Cost and Revenue Analysis, Fiscal Years 1994, 1995, and 1996.

Table 2
Total Unit Attributable/Volume Variable Cost
(Cents per Piece)

	Historical				USPS Proposed R97-1			
	Fiscal Year <u>1994</u>	Fiscal Year <u>1996</u>	<u>Change</u>	Percentage <u>Change</u>	Base Year <u>1996</u>	Test Year 1998 Before <u>Rates</u>	<u>Change</u>	Percentage <u>Change</u>
First Class Mail								
Letters and Parcels	23.4	26.1	+2.7	+11.5%	22.2	23.0	+0.8	+3.6%
Presort Letters and Parcels	11.9	10.6	-1.3	-10.9%	9.7	9.8	+0.1	+1.0%
Standard A (Old Third Class)								
Regular	14.2	14.6	+0.4	+2.8%	13.8	14.3	+0.5	+3.6%
Enhanced Carrier Route	6.1	6.4	+0.3	+4.9%	6.2	6.6	+0.4	+6.5%

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 96: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Test Year 98 Before Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G.

1 makes some sense for Standard A mail by comparison to recent CRA trends, for
2 example, 2.8% historical and 3.6% projected increases.

3
4 However, the Postal Service's 1.0% increase in forecasted unit costs for First-
5 Class workshared mail through the test year is peculiar and warrants careful scrutiny
6 in light of recent CRA performance showing a 10.9% decrease in unit costs for this
7 mailstream over the FY1994-FY1996 period. The implementation of cost-reducing
8 classification reform on July 1, 1996, and cost-reducing move update requirements
9 started on July 1, 1997, are two further reasons beyond recent CRA history, and its
10 causes, as to why the Postal Service's forecasted increase in test year unit costs for First-
11 Class workshared mail may be without scientific merit. I analyze these issues in detail
12 below.

13
14 Table 3 shows the source of the recent decrease in unit attributable costs for
15 First-Class workshared mail to be almost exclusively in cost segment 3, mail processing
16 direct labor, and cost segments 6 and 7, city delivery direct labor. Between FY1994 and
17 FY1996, there has been a one half cent decline (-0.5) in mail processing unit costs for
18 First-Class workshared mail and a seven-tenths of one cent decline (-0.7) in city carrier
19 unit costs. This accounts for 92.3% of the observed decline of 1.3 cents in CRA
20 total unit attributable costs for First-Class workshared mail over the period. The
21 remaining net 0.1 cent decrease from combining CRA cost segments 18 and 20 involves
22 complexities associated with changing definitions of what is included in those two cost
23 segments.

24
25 By way of contrast with First-Class workshared mail, mail processing unit costs
26 for single-piece mail have gone up by 1.2 cents over the FY1994-FY1996 period and city
27 carrier delivery costs have gone down by just one tenth of one cent. Furthermore, city
28 delivery carrier costs have not gone down at all over this period for Standard A mail,

Table 3
Attributable Cost by Segment

Cost Segment	Change in Attributable Unit Cost 1994 to 1996 (Cents per Piece)				1996 Attributable Unit Cost (Cents per Piece)			
	First Class Mail		Standard A (Old Third Class)		First Class Mail		Standard A (Old Third Class)	
	Letters and Parcels	Presort Letters and Parcels	Bulk Rate Regular - Other	Bulk Rate Regular - Carrier Presort	Letters and Parcels	Presort Letters and Parcels	Bulk Rate Regular - Other	Bulk Rate Regular - Carrier Presort
C/S-1 Postmasters	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1
C/S-2 Supervisors & Technicians	0.2	-0.1	0.0	0.0	1.6	0.6	0.8	0.3
C/S-3 Clerks & Mailhandlers	1.2	-0.5	-0.2	0.0	13.0	3.7	6.0	1.2
C/S-4 Clerks CAG-K Offices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C/S-6&7 City Delivery Carriers	-0.1	-0.7	0.0	0.0	3.6	2.6	2.7	2.5
C/S-8 Vehicle Service Drivers	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
C/S-9 Special Del Messengers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C/S-10 Rural Carriers	0.0	0.0	0.0	0.1	0.5	0.6	0.9	0.8
C/S-11 Custodial & Maint Serv	0.2	0.0	0.1	0.0	1.2	0.4	0.6	0.2
C/S-12 Motor Veh Service	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
C/S-13 Misc. Oper. Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C/S-14 Purchased Transport	0.2	0.0	0.0	0.0	1.1	0.6	0.8	0.2
C/S-15 Building Occupancy	0.1	0.0	0.0	0.0	0.5	0.2	0.3	0.1
C/S-16 Supplies and Services	0.4	0.0	0.2	0.1	1.1	0.3	0.5	0.1
C/S-17 Research & Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C/S-18 Admin. & Reg. Operations	-0.7	-0.5	-0.5	-0.2	1.5	0.6	0.8	0.4
C/S-19 Gen, Mgmt Systems	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C/S-20 Other Accr'd Expenses	1.2	0.4	0.6	0.2	1.7	0.7	0.9	0.3
Total	2.7	-1.3	0.4	0.3	26.1	10.6	14.6	6.4

Source: USPS, Cost Segments and Components, Fiscal years 1994 and 1996.

1 while mail processing costs have dropped marginally compared with the significant
2 decline for First-Class workshared mail.

3
4 Thus, the source of the growing cost difference between First-Class single-piece
5 mail and First-Class workshared mail appears to fall largely in the areas of mail
6 processing and delivery costs. Of the 4 cent increase in this cost difference since
7 FY1994, at least 2.4 cents, and likely more, is explainable by changes in mail processing
8 and delivery costs.

9
10 The Postal Service in this case has still relied upon non-modeled cost factors in
11 reconciling its modeling of mail processing costs to the CRA, and this was one reason
12 cited by the Commission in its O&RD in MC95-1 for not relying on the Postal Service's
13 modeled cost methodology in setting discounts.¹ The Postal Service is still unable to
14 account for 13.5% of mail processing unit costs for First-Class workshared mail that is
15 identifiable in the CRA but not in its modeling, about one half a cent.

16
17 As a result, there continue to be valid reasons for calculating the discounts for
18 First-Class workshared letter mail through traditional CRA full cost difference
19 considerations as discussed above. Nonetheless, it seems preferable to try to work
20 within the structure of the new or revised USPS models in light of the absence of any
21 alternative, credible formal methodology, such as the Commission's old "Appendix F"
22 procedure. I now turn to the Postal Service's modeled costs for mail processing and
23 delivery of workshared First-Class letter mail, the formal basis from which the Postal
24 Service has proposed discounts for that mailstream in this case.

¹ The fact that the Postal Service has in this case reduced the percentage of costs which are non-modeled (or unexplained) compared to MC95-1 does not alter the reasoning behind the conclusion reached by the Commission in that case, namely that reference to the CRA single-piece benchmark is still the basis for establishing the discounts albeit through the intermediate step of cost models. Notably, the Postal Service in this case has dropped the term "non-modeled" and replaced it with the term "proportional". "Unexplained" costs is perhaps the more straightforward term.

1 B. USPS Witness Hume's Dynamic Model of Test Year Delivery Costs is
2 on the Right Track, But Fails to Reflect Move Update Savings
3

4 USPS witness Hume relies on a modified procedure from that developed for
5 MC95-1 to estimate unit delivery costs for First-Class workshared mail. The first
6 modification is the introduction of a "Delivery Point Sequencing (DPS) Savings
7 Returned" element to account for the "effects of DPS letter mail on base year (FY96)
8 costs and thereby provide a basis for estimating DPS effects in the test year." (USPS-T-
9 18, p. 3, lines 20-21.) The second modification is his reliance on a newly revised Carrier
10 Cost System (CCS) data base rather than the ODIS data base as the means of obtaining
11 representative volume data by rate category.²
12

13 At the aggregate level of the CRA, the effect of Hume's procedure can be
14 illustrated in Table 4. USPS witness Alexandrovich has estimated base year 1996 unit
15 carrier costs for First-Class workshared mail at 3.282 cents and USPS witness Patelunas
16 has estimated test year 1998 unit carrier costs for this mailstream at 2.890, a decrease of
17 0.392 cents per piece. USPS witness Hume, allowing for the effects of DPS estimates
18 test year unit carrier costs for First-Class workshared mail at 2.509 cents, a decrease of
19 0.773 cents per piece from the base year.
20

21 Both these test year unit carrier cost figures for First-Class workshared mail are
22 broadly consistent with the recent historical CRA trend of falling unit carrier costs as
23 seen from Table 5, although the projected fall is far less than recent history.³ However,
24 DPS savings as reflected in the CRA from FY1994 through FY 1996, and as carried
25 forward into test year 1998 by Hume, are not the only source of delivery cost savings

² CCS does not, however, go below the presort letters and parcels aggregate for the First-Class letter subclass.

³ First-Class workshared mail has delivery costs that are lower than Standard A mail in FY1996, and markedly lower in USPS Test Year projections. This evidence should be important in the setting of discounts and rates for the two workshared mailstreams.

Table 4
First-Class Workshared Unit Carrier Costs

	Test Year 1998 Before Rates CRA CS 6, 7, and 10 Unit Costs			Test Year 1998 Before Rates Volume (Million Pieces)
	Base Year 1996 CRA CS 6,7, and 10 Unit Costs	Test Year 1998 As Developed by Patelunas	Test Year 1998 As Implied by Hume*	
Retail Presort			2.925	5,369.390
Automation				
Basic Letters			2.489	4,284.950
Basic & 3/5-Digit Flats			3.758	282.211
3-Digit Letters			2.430	20,642.546
5-Digit Letters			2.351	9,375.321
Carrier Route Letters			<u>2.905</u>	<u>1,552.572</u>
Total First-Class Workshared	3.282	2.890	2.509	41,506.990
Percent Change from Base Year 1996		-12.0%	-23.6%	

Hume's CRA CS 6, 7, and 10 Costs are Lower than Patelunas' Unit Costs by -13.2%

Note: * See Technical Appendix A.1.

Sources:

Base Year 1996: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Test Year 1998 As Developed by Patelunas: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G.

Test Year 1998 As Implied by Hume: Direct Testimony of Peter Hume in Docket No. R97-1, USPS T-18, Workpaper 1. The 1996 costs implied by Hume are calculated by setting Hume's piggyback factors equal to 1.

Table 5
City and Rural Carrier Unit Attributable/Volume Variable Cost
(Cents per Piece)

	Historical				USPS R97-1			
	Fiscal Year <u>1994</u>	Fiscal Year <u>1996</u>	<u>Change</u>	Percentage <u>Change</u>	Base Year <u>1996</u>	Test Year 1998 Before <u>Rates</u>	<u>Change</u>	Percentage <u>Change</u>
First Class Mail								
Letters and Parcels	4.1	4.1	0.0	0.0%	4.0	3.9	-0.1	-2.5%
Presort Letters and Parcels	3.9	3.3	-0.6	-15.4%	3.3	2.9	-0.4	-12.1%
Difference	0.2	0.8	+0.6		0.7	1.0	+0.3	
Standard A (Old Third Class)								
Regular	3.5	3.6	+0.1	+2.9%	3.7	3.7	0.0	0.0%
Enhanced Carrier Route	3.3	3.4	+0.1	+3.0%	3.3	3.5	+0.2	+6.1%
Difference	0.2	0.2	0.0		0.4	0.2	-0.2	

Note: City and Rural Carrier Costs are the sum of Cost Segment 6 City Delivery Carriers, Office Activity, Cost Segment 7 City Delivery Carriers, Street Activity, and Cost Segment 10 Rural Carriers.

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 96: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Test Year 98 Before Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G.

1 for test year 1998. One must also include the impact of move update cost savings due
2 to new move update requirements that became effective on July 1, 1997.

3
4 In Table 6, I make such an adjustment based on my calculation of forwarding
5 cost savings from Technical Appendix A.2. The 0.262 cost savings figure is based on a
6 conservative assumption that new software systems for workshared mail will reduce
7 the number of pieces of workshared mail that need to be forwarded by 25% by test year
8 1998.⁴ (See NAPM-T-1.) I apply these address update savings to USPS witness Hume's
9 rate categories equally as there is no reason for believing different rate categories
10 would benefit more, or less, than any others from these software improvements now
11 being made. Of importance to the Commission in the calculation of discounts, it should
12 be noted that my move update requirement adjustment applies to First-Class Mail,
13 which guarantees forwarding, but not to Standard A mail.

14
15 **C. USPS Witness Hatfield's Model of Unit Mail Processing Costs**
16 **Significantly Overstates Test Year Mail Processing Costs for First-Class**
17 **Workshared Mail**
18

19 Whereas unit mail processing labor costs for First-Class workshared mail from
20 cost segment 3 of the CRA have fallen by 13.8% between FY1994 and FY1996, as is
21 evident from Table 7, USPS witnesses Hatfield and Patelunas have evidently been
22 content to largely ignore history and the continuing impact of MC95-1 since they
23 project a highly unrealistic 7.1% increase in such costs between Base Year 1996 and Test
24 Year 1998.

⁴ Forwarding cost savings based on 10%, 33% and 50% less workshared mail forwarded are also provided in Technical Appendix A.2.

Table 6
First-Class Workshared Letters Unit Delivery Costs
Under Alternative Scenarios
(Test Year 1998, Cents per Piece)

	<u>USPS R97-1 Proposed</u>	<u>Including Move Update Cost Savings</u>
Letters		
Retail Presort	4.1460	3.8840
Automation		
Basic	3.7110	3.4490
3-Digit	3.6520	3.3900
5-Digit	3.5730	3.3110
Carrier Route	4.1260	3.8640

Sources:

R97-1 Proposed: Direct Testimony of Sharon Daniel, USPS T-29, Exhibit USPS-29C (revised 10/1/97).

Including Address Update Cost Savings: R97-1 minus address update cost savings developed in Technical Appendix A.2.

Table 7
Mail Processing Labor Unit Attributable/Volume Variable Cost
(Cents per Piece)

	Historical				USPS Proposed R97-1			
	Fiscal Year 1994	Fiscal Year 1996	Change	Percentage Change	Base Year 1996	Test Year 1998 Before Rates	Change	Percentage Change
First Class Mail								
Letters and Parcels	7.7	8.3	+0.6	+7.8%	8.8	9.0	+0.2	+2.3%
Presort Letters and Parcels	2.9	2.5	-0.4	-13.8%	2.8	3.0	+0.2	+7.1%
Difference	4.8	5.8	+1.0	+20.8%	6.0	6.0	-0.0	-0.0%
Standard A (Old Third Class)								
Regular	4.3	4.1	-0.2	-4.7%	4.9	5.1	+0.2	+4.1%
Enhanced Carrier Route	0.7	0.7	0.0	0.0%	0.9	0.9	0.0	0.0%
Difference	3.6	3.4	-0.2	-5.6%	4.0	4.2	+0.2	+5.0%

Note: Mail Processing Labor is Cost Segment 3.1 Mail Process Direct Labor.

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 1996: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Test Year 1998 Before Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G.

1 USPS witness Hatfield begins with a test year benchmark unit mail processing
2 cost of 4.6 cents for workshared letters generally that he obtained from LR-106.⁵ In a
3 simplified sense, the procedure of LR-106 is to begin with FY1996 unit mail processing
4 costs of 2.5 cents for First-Class workshared mail. The assumed roll forward factor to
5 test year 1998, without any apparent reference to recent CRA history or the July 1, 1996
6 implementation of new worksharing requirements, is 1.1280 and the assumed
7 piggyback factor for all other costs is 1.604.⁶ Thus:

8
9
$$2.5 \times 1.128 \times 1.604 = 4.5 \text{ cents}$$

10

11 where the difference from USPS witness Hatfield's 4.6 cent benchmark is evidently due
12 to rounding.

13
14 Importantly, the piggyback factor for First-Class workshared mail is assumed to
15 be significantly higher than for First-Class single-piece and Standard A Regular and
16 Enhanced Carrier Route mail. For Standard A mail, the piggyback is 1.563, for First-
17 Class single-piece about the same at 1.567, but for First-Class workshared, 1.604. This
18 unexplained piggyback differential leads to an unjustified increase in test year unit
19 mail processing costs for First-Class workshared mail of 0.12 cents.

20
21 It may be true that USPS witness Patelunas attempted to incorporate a falling
22 unit cost factor from volume mix adjustments into his test year unit costs for First Class
23 workshared letters and parcels.⁷

⁵ The actual figure is 4.606 cents, taken from USPS, LR-106, p. II-5.

⁶ The roll forward assumption and piggyback factor are from USPS, LR-106, p. VI-8.

⁷ Such an effort can be found in LR-126. However, that -2.9% volume mix offset combined with USPS witness Patelunas' increase in unit mail processing costs for First Class workshared mail at his stated 3.8% change (from 2.7674 cents in BY 1996 to 2.8713 cents in FY 1997) implies a 6.7% mail processing labor wage increase for FY1997 before any productivity offsets, a number well above the 3.01% FY1997 wage increase for clerks and mailhandlers in USPS witness Patelunas' testimony at Exhibit 15A. Thus, it is not clear that USPS witness Patelunas has incorporated the 2.9% volume mix offset found in LR-126.

1 Regardless of whether he has, the effort in LR-126 is highly flawed in a technical
2 sense because it does not even make use of the good empirical data we have for FY1994
3 - FY1996 relating shifts in First Class workshared volume mixes to changes in unit
4 costs. The dramatic historic and forecasted volume mix shifts evident from Table 8
5 belie the Postal Service's low test year unit cost adjustment in light of what we know
6 from the CRA dynamics. When I examine the actual changes in CRA C.S.3.1 direct
7 labor unit costs from 1994 through 1996 with the observed volume mix changes from
8 nonautomation to automation rate mail in First Class, I calculate an elasticity of 0.4558
9 for mail processing unit costs with respect to non-automation share in the First Class
10 workshared mailstream. Applying that elasticity to the volume mix shifts projected to
11 test year 1998 by USPS witness Tolley, I arrive at a test year unit mail processing cost of
12 2.0766 cents for First Class workshared mail in the aggregate, compared to the USPS
13 base year 1996 cost of 2.7674 cents, a two year decline of 0.6908 cents as against the
14 USPS LR-126 projected decline of 0.0817 cents.⁸

5
16 In Technical Appendix B, I have corrected the implausible and incorrect roll
17 forward factors used in LR-106 and LR-126 in dynamic scenarios that are more
18 plausible or technically correct in light of the aforementioned two considerations:
19 (1) the recent empirical behavior of CRA unit mail processing cost dynamics for First-
20 Class workshared mail, largely driven by volume mix changes from non-automation to
21 automation mail, which are likely to continue into the test year; (2) the implementation
22 of revised worksharing requirements stemming from MC95-1 that went into effect only
23 on July 1, 1996, which are also likely to continue into the test year.

⁸ USPS LR-126 purportedly makes a volume mix adjustment for BY1996 at Page II-5 based on forecasted FY1997 volumes as compared to actual BY1996 volumes. The cost difference, 0.0797 is then rolled forward to FY1997 for a cost difference of 0.0817 cents. No volume mix adjustment is made between FY1997 and test year 1998, presumably because the Tolley forecasts show little further volume mix adjustment.

Table 8
Shares of First-Class Workshared Mail

	Nonpresort ZIP+4 Letters	3/5-Digit Presort ZIP+4 Letters	Presort Nonautomation	Automation Basic Letters	Automation 3- Digit Letters	Automation 5- Digit Letters	Automation Carrier Route	Automation Auto Basic Flats	Automation 3/5 Digit Flats
1988	0.9%	22.1%	70.8%	0.0%	0.0%	0.3%	5.9%	0.0%	0.0%
1989	1.0%	21.0%	69.8%	0.0%	0.0%	1.9%	6.3%	0.0%	0.0%
1990	1.1%	21.5%	64.7%	0.0%	0.0%	5.9%	6.8%	0.0%	0.0%
1991	1.5%	18.3%	58.7%	0.0%	4.5%	10.2%	6.8%	0.0%	0.0%
1992	1.6%	11.3%	49.4%	0.0%	14.5%	15.1%	8.1%	0.0%	0.0%
1993	1.1%	7.2%	39.9%	0.0%	27.6%	16.7%	7.3%	0.1%	0.1%
1994	1.2%	4.3%	35.9%	0.0%	29.8%	19.8%	8.8%	0.1%	0.1%
1995	1.0%	2.9%	31.5%	0.0%	33.0%	23.2%	8.1%	0.1%	0.1%
1996	1.1%	1.7%	25.9%	1.9%	38.2%	23.5%	7.4%	0.1%	0.2%
1997 ¹	0.0%	0.0%	14.9%	10.2%	48.6%	22.1%	3.5%	0.1%	0.6%
1998 Before Rates ²	0.0%	0.0%	13.0%	10.3%	49.7%	22.6%	3.7%	0.1%	0.6%

Notes:

¹ Combination of two quarters of history and two quarters of forecast.² Forecast.

Sources:

Historical Volumes (through 1997 Q2): Direct Testimony of Thomas Thress in Docket No. 97-1, USPS-T-7, WP-1.

Forecasted Volumes (starting 1997 Q3): Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Table 2 (revised 10/9/97).

1 Table 9 summarizes the effect of these dynamic scenarios on correcting USPS
2 witness Hatfield's unit mail processing costs for the four worksharing rate categories he
3 considers. Each of these scenarios is an improvement on witness Hatfield's estimates,
4 as each one attempts to build into the roll forward factor to test year CRA dynamics,
5 volume mix shifts, or other factors associated with new worksharing requirements,
6 much as USPS witness Hume built dynamic DPS factors into his test year unit delivery
7 costs.

8
9 The first column of Table 9 is USPS witness Hatfield's breakout of mail
10 processing unit costs by rate category for First-Class workshared letters in the test year.
11 The first scenario in the next two columns presents unit mail processing costs based on
12 my elasticity for volume mix shifts. The second scenario presents test year 1998 unit
13 mail processing costs by rate category using a roll forward factor which extrapolates
14 CRA dynamics from FY1994 through FY1996 into test year 1998. Under this scenario,
15 for example, the 3-digit automation mail processing unit cost is 3.6151 cents, 0.9326
16 cents less than the 4.5477 cent figure proposed by witness Hatfield.

17
18 I have chosen a modest 3.6% decline as a roll forward factor to apply to the Hatfield
19 model. It is extremely conservative relative to the 25% decline in unit mail processing
20 costs that the Postal Service volume mix shift

Table 9
Comparison of First-Class Workshared Letters Unit Mail Processing Costs
Under Alternative Scenarios
(Test Year 1998, Cents per Piece)

	USPS R97-1 Proposed Unit Mail Processing Cost	Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts ¹		Historical Changes in Unit Costs FY94-FY96 Continue ¹		Weighted Historical Changes in Unit Costs FY94-FY96 and FY95-FY96, Adjusted ²	
		Unit Mail Processing Cost	Difference from R97-1 Proposed	Unit Mail Processing Cost	Difference from R97-1 Proposed	Unit Mail Processing Cost	Difference from R97-1 Proposed
Retail Presort	7.1993	5.0179	-2.1814	5.7230	-1.4763	6.2145	-0.9848
Automation							
Basic	5.3188	3.7072	-1.6116	4.2281	-1.0907	4.5912	-0.7276
3-Digit	4.5477	3.1697	-1.3780	3.6151	-0.9326	3.9256	-0.6221
5-Digit	3.0266	2.1095	-0.9171	2.4059	-0.6207	2.6125	-0.4141
Carrier Route	2.2910	1.5968	-0.6942	1.8212	-0.4698	1.9776	-0.3134

Sources:

R97-1 Proposed: Direct Testimony of Sharon Daniel, USPS-T-29, Exhibit USPS-29C (revised 10/1/97).

Technical Appendices B.1 and B.2.

Attachment to USPS/ABA&EEI&NAPM-T1-4 (revised 2/12/98).

Notes:

¹ Based on cost segment 3 mail processing direct labor only.

² Based on cost segment 3 mail processing direct labor and overhead.

1 implies based on the CRA-based cost elasticity I have constructed. The -3.6% roll
2 forward factor reflects two qualitative assessments made in the interests of financial
3 conservatism: (1) my elasticity may be capturing other factors in addition to volume
4 mix changes; and (2) FY1995-FY1996 CRA changes, being more recent, must be given
5 some greater weight in choosing an empirically-based roll forward factor.

6
7 **D. The Postal Service's Proposed Bulk Metered Mail Benchmark for First-**
8 **Class Worksharing Discounts is Conceptually Flawed, Inadequately**
9 **Supported, and Incorrectly Applied, and Must be Rejected**
10

11 For many years there has been a significant philosophical split between the
12 Postal Service and the Commission insofar as what "benchmark" to use for the purpose
13 of calculating worksharing discounts for First-Class letter mail. The Postal Service has
14 based its calculations on a cost avoidance methodology using a purely hypothetical
15 construct found nowhere in the actual mailstream: a letter identical in all respects to a
16 First Class presorted or automation compatible letter except that it moves through the
17 mail processing and delivery systems as a non-workshared letter.

18
19 The Commission has generally used as a starting point the cost difference
20 methodology, based on looking at the difference in total unit costs between two actual
21 letter mailstreams, First-Class single-piece letters, and First-Class workshared letters. It
22 has then applied different procedures over the years, notably the "Appendix F"
23 procedure for estimating the amount of the total CRA based cost difference that is
24 accounted for by mail processing and delivery cost differences.

25
26 With the growing conversion to automated processing, the Commission's
27 "Appendix F" procedure, based on a pure IOCS data base developed in a pre-

1 automation era, has come under increasing scrutiny.⁹ In an apparent effort to bridge the
2 gap between a hypothetical cost avoidance benchmark, and cost difference benchmark
3 based on largely dissimilar mailstreams, the Commission in MC95-1 recommended that
4 in the future a bulk metered mail benchmark purporting to have the positive features of
5 both these older benchmarks, while avoiding the negative features, be costed for
6 possible use as a benchmark in lieu of CRA based single-piece costs. Still, in its
7 decision the Commission did not rule out use of the single-piece benchmark.

8
9 In the Commission's view, the incompatibility of CRA-based single-piece
10 costs and model-based workshare category costs is more apparent than
11 real, since the Postal Service has applied a non-cost factor to its modeled
12 costs that purports to reconcile it with total CRA costs. (MC 95-1, O & RD,
13 para. [4301], p. IV-136)

14
15 Yet, bulk metered mail is an actual mailstream and it is claimed to have
16 more of the cost characteristics of workshared letter mail than single-piece
17 letters do.
18

19
20 The cost differential shown on this record between First-Class single-piece
21 and the First-Class automation categories is likely to be significantly
22 larger than the actual costs avoided, because the benchmark includes the
23 costs of both stamped mail and bulk metered mail. For reasons discussed
24 in the Commission's Opinion in Docket No. R90-1, the single-piece mail
25 most likely to convert to the automation categories is limited to the bulk
26 metered mail component. That component has significantly more
27 homogeneous, and lower, cost characteristics than single-piece mail
28 overall. Since the cost of the bulk metered component of single-piece mail
29 has not been provided on this record, the Commission has reduced the
30 passthrough of the cost differential between the single-piece benchmark
31 and the basic automation tier from 100 to 78 percent. (MC95-1, O&RD,
32 para. [4302], p. IV-136)

⁹ See, for example, the rebuttal testimony of Dr. James A. Clifton in R94-1, on behalf of the American Bankers Association, pp. 15 - 16; and the Commission's Opinion and Recommended Decision in that case at page III-7, para. 3020.

1 Unfortunately, the Postal Service's debut of its new proposed bulk metered mail
2 benchmark has been accompanied by so many errors and so much confusion that I do
3 not see how it can be relied upon in calculating the appropriate level of discounts for
4 First-Class workshared letters in this case.

5
6 As is now well known, the Postal Service made two errors in the calculation of
7 unit mail processing costs for its newly proposed bulk metered mail benchmark,
8 leading to an underestimate of its benchmark by between 1.0364 and 1.0423 cents
9 (depending upon whether the corrected incorrect figure of 9.5450 cents was used or the
10 uncorrected incorrect figure of 9.5391 cents was used).¹⁰ The corrected correct figure,
11 according to the Postal Service, is a mail processing unit benchmark cost of 10.5814
12 cents for bulk metered letters.

13
14 Of paramount importance, the corrected correct mail processing unit cost for
15 bulk metered mail is over a cent higher than the one USPS witness Fronk relied on for
16 setting First-Class worksharing rates in this case. In the October 8, 1997 revision to his
17 direct testimony, "Appendix A: Effect of Changes in Cost Data", USPS witness Fronk
18 at page 1, lines 7 - 10, admitted that he might have set different rates had he had the
19 correct data.

20
21 However, it is possible, indeed likely in some instances, that I would have
22 considered some alternative rates in developing my rate design, if the
23 new cost data had been available at the time that I developed the rates I
24 have proposed.

¹⁰ Interestingly, these issues appear more clearly in the direct testimony of Standard A mail witness Sharon Daniel than they appear in the direct testimony of any witness for First-Class rate design or discounts. In her testimony, USPS - T - 29, at 29C, page 1, Ms. Daniel used an uncorrected figure of 9.5391 cents, whereas the corrected (but largely incorrect) figure of 9.5450 cents relies on three corrected cells in LR - 106. What I call the corrected correct figure, which changes the benchmark mail processing unit cost from 9.5450 cents to 10.5814 cents, was calculated after an error was discovered which overstated the volume of metered First-Class single-piece letters, thus understating the benchmark unit cost.

1 The Postal Service has not yet even quantified the delivery costs for its newly
2 proposed bulk metered benchmark. The delivery cost for First-Class presort mail
3 (4.1460 cents per piece) is used as a proxy for the delivery cost of bulk and non - bulk
4 metered letters. It would seem no less arbitrary to have used the delivery cost for First-
5 Class single-piece letters (5.0010 cents per piece) as the proxy. Furthermore, USPS
6 witness Daniel, under oral cross examination, admitted that “[b]ulk metered mail is
7 not presorted.” (Transcript at 2633, line 17.)
8

9 Third, there is not a sufficient volume history available for bulk metered mail
10 made available in this case to test the Commission’s assertion that it is the most likely
11 candidate mail within the universe of First-Class single-piece letters for future
12 conversion to workshared mail. (See USPS response to ABA/USPS-T32-3, which shows
13 the appropriate ODIS data are only available from FY 1992 on.) In my view, the
14 Commission may not be correct. Given the small volumes of metered mail they
15 produce, small businesses do not directly qualify for any discounts with the Postal
16 Service. Even if they have access to a presort bureau, they are very unlikely to take
17 advantage of worksharing discounts. They may not feel it is worth the effort to send
18 their mail there since there is so little money involved.
19

20 In summary, for the reasons enumerated above, it appears that the Postal Service
21 should not use a “bulk metered” benchmark for the calculation of worksharing
22 discounts in First-Class in this case. While calculation errors have led to great
23 confusion over the correct level of this benchmark, there are more substantive reasons
24 to discard it. With respect to delivery costs, the Postal Service has simply and
25 erroneously assumed single-piece metered mail (and bulk metered mail) would have
26 the cost characteristics of presorted rather than single-piece mail. Nor has the very
27 short volume history submitted in response to an ABA interrogatory established that
28 bulk-metered mail has been in fact the most likely conversion mail.

1 E. **Standard A Costs and Rates are Germane to the Estimation of First-**
2 **Class Workshared Costs and Discounts**
3

4 As is evident earlier from Table 1 on page 5, the cost characteristics of First Class
5 workshared mail most closely resemble those of Standard A regular mail, not First
6 Class single piece mail or the bulk metered mail component of First Class single piece
7 mail. For example, neither workshared mailstream uses the Postal Service's collection
8 system, whereas metered mail does. As a practical matter, and as implied by USPS
9 witness Daniel's explicit juxtaposition of First-Class and Standard A worksharing costs
10 in USPS 29-C, the most appropriate mail processing and delivery cost comparisons for
11 First-Class workshared letters may be Standard A mail. There is probably more
12 potential conversion mail to First-Class from Standard A regular mail than from bulk
13 metered First-Class Mail. Furthermore, the two mailstreams are, by physical nature,
14 more comparable.
15

16 The similar unit cost characteristics between First Class workshared and
17 Standard A regular letter mail is further amplified by the eighteen CRA cost segment
18 comparisons found in Table 3 on page 9. With the exception of rural carrier costs, the
19 unit costs of First Class workshared mail more closely resemble those of Standard A
20 regular mail than they resemble First Class single piece mail. In some instances that are
21 germane to the calculation of First Class worksharing discounts, namely the behavior of
22 mail processing costs, the CRA cost dynamics of First Class workshared mail more
23 closely resembles that of Standard A Regular mail than it resembles that of First Class
24 single piece mail. The unit cost declines for mail processing labor over the FY1994 -
25 FY1996 period are 0.5 cents for First Class workshared mail and 0.2 cents for Standard
26 A regular mail, while First Class single piece unit mail processing costs rise by 1.2
27 cents.
28

29 Given the similarity of these mailstreams in CRA unit cost levels and dynamics,
30 as shown in Table 7 on page 16, it is remarkable that the Postal Service projects a 7.1%

1 increase in test year unit mail processing labor costs for First Class workshared mail but
2 only a 4.1% increase in the test year unit mail processing labor costs for Standard A
3 regular mail. Such a difference in forecasts makes no sense in light of recent CRA
4 dynamics and what I have previously estimated is the cost reducing future impact of
5 continuing volume mix shifts within First Class workshared mail toward automation.
6 Without some formal consideration given to Standard A worksharing mail costs against
7 which to measure the costs of First Class workshared mail, Postal Service errors in
8 costing for First Class workshared mail such as the above 7.1% projection are much
9 more likely to slip through a rate proceeding unnoticed and uncorrected.

10
11 The Postal Service continues to set worksharing rates for First Class mail way
12 above those of the highly similar Standard A mailstream without any due
13 consideration to comparing First-Class workshared with Standard A regular mail costs
14 even though such a common-sense approach is implied by the First Class and Standard
15 A cost comparisons in USPS witness Daniel's testimony. That the Postal Service
16 continues to ignore cost comparisons of these two comparable mailstreams in setting
17 respective worksharing rates can be nowhere better exemplified than from the evidence
18 in Table 10 that unit test year mail processing costs as submitted by USPS are lower for
19 two of the three automation rate categories in First Class workshared mail than for
20 Standard A commercial regular workshared mail.

21
22 As shown in Table 11, by comparison with recent CRA historical dynamics, it
23 seems analytically questionable and grossly inequitable that First Class workshared
24 mailers are being asked to pick up 2% more of the total USPS mail processing labor

Table 10

**Comparison of Mail Processing Costs for First-Class Workshared and
Standard (A) Letters
(Test Year 1998, Cents per Piece)**

First-Class Basic Automation Letters	5.3188
<u>Standard (A) Basic Automation Letters</u>	<u>5.2178</u>
Difference	0.1010

First-Class 3-Digit Automation Letters	4.5477
<u>Standard (A) 3-Digit Automation Letters</u>	<u>4.6767</u>
Difference	-0.1290

First-Class 5-Digit Automation Letters	3.0265
<u>Standard (A) 5-Digit Automation Letters</u>	<u>3.3904</u>
Difference	-0.3639

Source:

Direct Testimony of Sharon Daniel in Docket No. R97-1, USPS-T-29,
Exhibit USPS-29C (revised 10/1/97).

Table 11
Mail Processing Labor Share of Total Unit Attributable/Volume Variable Cost

	Historical			USPS R97-1		
	Fiscal Year	Fiscal Year	Change	Base Year	Test Year	Change
	<u>1994</u>	<u>1996</u>		<u>1996</u>	<u>1998 Before Rates</u>	
First Class Mail						
Letters and Parcels	32.8%	31.8%	-1.0%	39.6%	39.2%	-0.5%
Presort Letters and Parcels	24.1%	23.4%	-0.7%	28.4%	30.4%	+2.0%
Difference	8.7%	8.4%	-0.3%	11.2%	8.8%	-2.4%
Standard A (Old Third Class)						
Regular	30.6%	28.3%	-2.3%	35.7%	35.4%	-0.3%
Enhanced Carrier Route	10.8%	10.5%	-0.3%	14.1%	14.3%	+0.2%
Difference	19.8%	17.8%	-2.0%	21.6%	21.1%	-0.5%

Note: Mail Processing Labor is Cost Segment 3.1 Mail Process Direct Labor.

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 96: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Test Year 98 Before Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G.

1 costs in test year 1998, while Standard A Regular mailers are being asked to contribute
2 0.2% less.

3
4 Volume weighted city and rural carrier costs in Table 12, as well as delivery
5 costs, also show that First Class workshared mail is being run through the Postal
6 Service with greater unit cost efficiency than Standard A mail, while rates for First-
7 Class workshared mail continue to be non-cost justified relative to Standard A rates,
8 and on absolute unit costs grounds as well.

9
10 In Table 13, I have compared the recent treatment accorded First Class
11 worksharing discounts by comparison with the Standard A Regular discounts.¹¹ The
12 three outstanding facts concerning changes in discounts since the last rate case are as
13 follows. First, even with the great disparity in First Class and third class worksharing
14 discounts existing before reclassification, the additional discounts given Standard A
15 Regular mailers in the recent reclassification case are much larger than those given First
16 Class workshared mailers, even though the latter group, arguably, had to do much
17 more work to qualify for the new, homogenized, worksharing requirements for
18 automation mail than did their Standard A commercial regular counterparts.

19
20 Second, the Postal Service in this case is evidently trying to retrench on all the
21 added worksharing discounts the Commission approved in MC95-1, as shown by the
22 negative numbers in the second column of "Changes in Discounts." However, and

¹¹ While it may be technically inappropriate to refer to Standard A mail "discounts" since reclassification, in fact USPS witness Moeller refers to such discounts in this case in his testimony at page 18, lines 10, 11, and 13. (USPS-T-36). Further, while it may be technically true that First Class workshared mail was not granted subclass status in MC95-1, in fact in R97-1, the Postal Service has provided data, such as a separate own price elasticity for First Class workshared mail for the first time, just as if it did have subclass status.

Table 12
Comparison of Delivery Costs and City and Rural Carrier Costs
(Test Year 1998 Before Rates, Cents per Piece)

	<u>City and Rural Carrier Costs</u>	<u>Delivery Costs</u>
First-Class Presort Letters and Parcels	2.9	3.7
Standard A (Old Third Class)		
Regular	3.7	4.7
Enhanced Carrier Route	3.5	4.4

Notes:

City and Rural Carrier Costs are the sum of Cost Segment 6 City Delivery Carriers, Office Activity, Cost Segment 7 City Delivery Carriers, Street Activity, and Cost Segment 10 Rural Carriers.

Delivery Costs for First-Class Presort Letters and Parcels, Standard (A) Regular, and Standard (A) Enhanced Carrier Route are the volume-weighted averages of the delivery costs for the detailed mail types (see Technical Appendix A.3).

Sources:

Carrier Costs: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15, Exhibit USPS-15G.

Delivery Costs: See Technical Appendix A.3.

Table 13
Recent Changes in Discounts
(Cents per Piece)

		Discounts			Changes in Discounts		
				USPS R97-1	MC95-1 Over	R97-1 Proposed	R97-1 Proposed
		<u>R94-1</u>	<u>MC95-1</u>	<u>Proposed</u>	<u>R94-1</u>	<u>Over MC95-1</u>	<u>Over R94-1</u>
First Class Automation							
	Discount from:						
Basic	Single-Piece	4.6	5.9	5.5	1.3	-0.4	0.9
3-Digit	Single-Piece	5.6	6.6	6.5	1.0	-0.1	0.9
5-Digit	Single-Piece	6.2	8.2	8.1	2.0	-0.1	1.9
Standard (A) Regular Automation							
	Discount from:						
Basic	Basic Presort	2.2	7.3	5.8	5.1	-1.5	3.6
3-Digit	3/5-Digit Presort	1.3	3.4	3.1	2.1	-0.3	1.8
5-Digit	3/5-Digit Presort	2.2	5.4	4.9	3.2	-0.5	2.7

third, even with the proposed reduction in MC95-1 level discounts proposed by the Postal Service in this case, the increase in discounts afforded Standard A Regular automation mail in this case compared to the last rate case are on average about twice those being afforded First Class automation mailers. There is a gross inequity between First-class workshared and Standard A in the proposed "give-backs" that is not cost-justified and that should be rectified by the Commission in its proposed rates.

In this case, for all the reasons enumerated above, I recommend that in setting worksharing discounts for First-Class Mail, the Commission not only look to First-Class single piece costs, but also the relationship of Standard A Regular subclass costs and discounts as it compares to the relationship of First-Class worksharing costs and discounts.

F. A Correct Estimation of Postal Service Cost Models Using the Commission's MC95-1 Methodology Warrants Discounts For First-Class Workshared Letters Ranging from 6.8 to 8.9 Cents

Based on the corrections I have made in Sections III.B. and C. above to the Postal Service's roll forward factors, my test year mail processing and delivery unit costs by rate category for First-Class workshared mail are as follows:

Table 14

**Corrected USPS Modeled Costs
(Cents-Per-Piece)**

<u>Rate Category</u>	<u>Mail Processing</u>	<u>+ Delivery</u>	<u>Corrected Combined Cost</u>	<u>USPS</u>
Retail presort	6.2145	3.8840	10.0985	11.3453
Basic Automation	4.5912	3.4490	8.0402	9.0298
3-Digit	3.9256	3.3900	7.3156	8.1997
5-Digit	2.6125	3.3110	5.9235	6.5995
Carrier Route	1.9776	3.8640	5.8416	6.4170

Source: Technical Appendices B.1 and B.2, Attachment to USPS/ABA&EEI&NAPM-T1-4 (revised 2/12/98).

Using the Postal Service's modeled costs approach for mail processing and delivery and adjusting these models for the dynamic factors analyzed previously, to which consideration must be given in estimating test year 1998 costs, would imply a very conservative change in the discounts proposed by the USPS as follows:

Table 15
Corrected Discounts Using Postal Service's Modeled Cost Methodology
(Cents-Per-Piece)

<u>Rate Category</u>	<u>USPS Discounts</u>	<u>Conservatively Corrected USPS Discounts</u>
Retail Presort	2.0	3.2
Basic Automation	5.5	6.5
3-Digit	6.5	7.4
5-Digit	8.1	8.8
Carrier Route	8.4	9.0

Such a correction is not sufficient in this case, however, because it is based implicitly on the Postal Service's flawed and unsupported bulk-metered mail benchmark. Instead, given my computation of mail processing and delivery costs, I recommend a set of discounts using the Commission's procedure from MC95-1.¹² These are as follows:

¹² This method is based on taking 78 percent of the full cost differences and applying this as the discount for the basic automation rate for First-Class workshared letters. Other automation rates are figured as additional discounts from the basic automation tier. (See MC95-1, O&RD, para. [4302], pp. IV-136-137).

Table 16**Proposed Discounts Using Commission's MC95-1 Methodology
(Cents-Per-Piece)**Test Year 1998 Costs and Discounts in Cents

Single-piece Mail Processing and Delivery	16.7434	
Basic Automation Mail Processing and Delivery	<u>8.0402</u>	
Difference	8.7032	<u>Rounded Discounts</u>
Discount for Basic Automation (78% of Difference)	6.7885	6.8 cents
3-Digit Discount	7.5131	7.5 cents
5-Digit Discount	8.9052	8.9 cents
Carrier Route Discount	NA	
Retail Presort Discount	NA	

My proposed discount for retail presort is 2.5 cents, and for carrier route presort, is 9 cents. This would retain the current discount for retail presort and pass through the added cost difference of a carrier route letter compared to a 5-digit letter from Table 14 above, about one tenth of one cent.

1 IV. My Proposed Rates for First-Class Workshared Letter Mail Incorporate Cost
2 Coverage Considerations Along with Proposed Discounts

3 A. The Postal Service's Proposed 283% Cost Coverage for First-Class
4 Workshared Letters Constitutes Economic Inefficiency in Rate-Setting
5 with Attendant Social Welfare Losses
6

7 The Postal Service has proposed a modest one cent increase in the price of First-
8 Class single-piece mail weighing one ounce or less in this case. This "rate restraint" is
9 moderate first and foremost because the revenue requirement of the Postal Service in
10 this case is modest. This having been said, rate restraint within one element of a First-
11 Class subclass should not be used as an excuse to impose economically inefficient and
12 inequitably high rates through inexplicably high mark-ups over cost in another set of
13 rates within that subclass. The rate re-structuring proposed by the Postal Service in this
14 case entails the highest mark-up over unit costs in the history of postal re-organization
15 for First-Class workshared letters,¹³ as indicated by the history of mark-ups over
16 attributable costs for First-Class workshared letters in Table 17 below.
17

18 Setting somewhat lower First-Class workshared rates (and/or lowering the extra
19 ounce rate for First-Class workshared mail) appears to be the only feasible way in this
20 case for the Commission to reverse the recent trend of growing First-Class cost
21 coverage divergence from the system-wide average.
22

23 Beyond the fact that the cost coverage proposed in this case for First-Class
24 workshared mail is a record high, and may even constitute an abuse of statutory
25 monopoly power by the Postal Service, there are other reasons of basic equity and
26 fairness why the Commission should set worksharing rates in First-Class absolutely

¹³ This does not include the formative years 1977-1979 when presort discounts were first introduced. Such early data from an entirely new rate category are not meaningful.

Table 17
First-Class Presort Letters and Parcels
Cost Coverages Compared to Average

	<u>Cost Coverage</u>		<u>Compared to</u>
	First-Class Presort	All Mail & Special Services	Average First-Class Presort
1980	206%	143%	1.44
1981	216%	147%	1.47
1982	223%	164%	1.36
1983	212%	158%	1.34
1984	203%	154%	1.32
1985	214%	152%	1.41
1986	226%	160%	1.42
1987	212%	153%	1.39
1988	213%	147%	1.45
1989	221%	149%	1.48
1990	212%	147%	1.45
1991	221%	152%	1.45
1992	224%	156%	1.43
1993	227%	158%	1.44
1994	219%	155%	1.42
1995	247%	163%	1.52
1996	261%	164%	1.60

Source: USPS, Cost and Revenue Analysis, Fiscal Years 1980 through 1996.

1 lower rather than at current levels. These equity arguments are summarized in Table
2 18 and Table 19.

3
4 As shown in Table 18, the Postal Service's proposed rates represent a percentage
5 increase in revenue per piece of mail for First-Class workshared letters that is out of all
6 proportion to the increases for the other large volume drivers in postal finances - and
7 almost double the additional burden placed on commercial mail in Standard A class.
8 The unit contribution made to postal institutional costs by First-Class workshared mail
9 under the USPS - proposed rates is ^{about}~~is over~~ two and one half times the burden placed on
10 Standard A Regular mail, as documented in Table 19.

11
12 The inequitable disparity in contribution to institutional costs will grow even
13 wider if the Postal Service's proposed rates are adopted in this case. As proposed in
14 that rate structure, those institutional cost burdens would increase by one cent from
15 current levels for First-Class workshared mail but by only one half of one cent for
16 Standard A regular mail, and by only two tenths of one cent for Standard A ECR mail,
17 as shown in Table 19.

18
19 The total volume of workshared mail in First-Class is projected to be 41 billion
20 pieces in the test year under the Postal Service's proposed rates, and for the Standard A
21 commercial mail subclasses combined about 66 billion pieces. Yet as shown in Table
22 20, First-Class workshared mail is projected to pay 43% more of the Postal Service's
23 institutional costs under the USPS proposed rates in the test year than Standard A mail
24 from that base of 38% less mail volume than the Standard A mailstream is projected to
25 have. This is an inequity should not be maintained by this Commission.

Table 18**Revenue per Piece: Test Year 1998 Before and After Rates**

	Revenue per Piece (Cents per Piece)		
	<u>Before Rates</u>	<u>After Rates</u>	<u>Percent Increase</u>
First-Class Letters & Parcels			
Single Piece	39.4	40.4	2.54%
Presort	26.7	27.9	4.49%
Standard (A) Commercial			
Regular	20.8	21.2	1.92%
Enhanced Carrier Route	14.5	14.9	2.76%

Source: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G, pp. 15 and 18, and Exhibit USPS-15J, pp. 15 and 18.

Table 19
Unit Costs, Revenue, and Cost Contribution

	Fiscal Year 1997			Test Year 1998 After Rates		
	Unit Revenue (Cents per Piece)	Unit Cost (Cents per Piece)	Unit Overhead Cost Contribution (Cents per Piece)	Unit Revenue (Cents per Piece)	Unit Cost (Cents per Piece)	Unit Overhead Cost Contribution (Cents per Piece)
First Class Mail						
Single Letters & Parcels	39.4	22.3	17.1	40.4	23.4	17.0
Worksharing Letters	26.8	9.8	17.0	27.9	9.9	18.0
Total Letters & Parcels	34.1	17.0	17.1	35.0	17.6	17.4
Standard Mail A						
Commercial Regular	20.9	14.0	6.9	21.2	13.8	7.4
Commercial Enhanced	14.5	6.4	8.1	14.9	6.6	8.3
Total Commercial	17.8	10.3	7.5	18.5	10.7	7.8

Sources:

Fiscal Year 1997: Direct Testimony of Richard J. Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15D.

Test Year 1998 After Rates: Direct Testimony of Richard J. Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97).

Table 20
Contributions to Institutional Costs
(Million Dollars)

	<u>Fiscal Year 1994</u>	<u>Fiscal Year 1995</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>	<u>Test Year 1998 Before Rates</u>	<u>Test Year 1998 After Rates</u>
First-Class Mail						
Single Letters & Parcels	6,440.8	7,086.1	7,039.6	9,292.1	8,811.9	9,268.0
Worksharing Letters	4,969.5	5,899.0	6,678.8	6,721.3	6,973.2	7,386.0
Standard Mail A						
Commercial Regular	1,210.6	1,709.8	1,929.6	2,224.7	2,199.0	2,784.4
Commercial Enhanced	2,116.6	2,407.8	2,422.0	2,518.3	2,529.1	2,381.0
Total Mail and Services	17,283.7	20,763.1	21,757.6	25,329.8	24,647.4	27,059.3

Notes:

Contribution to Institutional Costs is Revenue per Piece minus Attributable or Volume Variable Cost per Piece multiplied by Volume.

Sources:

Fiscal Years 1994 - 1996: USPS, Cost and Revenue Analysis, Fiscal Year 1994, Fiscal Year 1995, and Fiscal Year 1996.

Fiscal Year 1997: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15D.

Test Year 1998 Before Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15G (revised 8/22/97).

Test Year 1998 After Rates: Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97).

B. My Proposed Cost Coverages and Rates for First-Class Workshared Mail Reflect Issues of Economic Efficiency and Equity with Standard A Mail

The Postal Service's proposed rates for First-Class workshared letters are shown in Table 21. From Section III. above, a corrected cost based calculation of discounts would lead to the rates shown in column two of Table 21.

Table 21

**Rates and Cost Coverages Implied by
Discounts Proposed in Section III**

	<u>USPS Proposed</u>	<u>With Corrected Discounts</u>
Average Workshared Revenue Per Piece	27.94	27.00
Implied Cost Coverage	283.3%	287.1%
Retail Presort	31.0 cents	30.5 cents
Basic Automation	27.5 cents	26.2 cents
3-Digit	26.5 cents	25.5 cents
5-Digit	24.9 cents	24.1 cents
Carrier Route	24.6 cents	24.0 cents

The 287% cost coverage associated with my proposed discounts is too high and entails significant inequities, as well as inefficiencies and social welfare losses.

Based on the considerations discussed above, I recommend a cost coverage of 276.0% for First-Class workshared mail. This would generate greater efficiency in

Postal pricing (though not as much as desirable) and lessen the social welfare loss caused by the Postal Service's rate proposals. The proposed rates that follow from this cost coverage constitute my formal recommendation for First-Class workshared rates in this docket.

Table 22

Proposed Rates with Cost Coverage Adjustments

Retail Presort	30.0
Basic Automation	26.1
3-Digit ¹⁴	24.4
5-Digit	22.8
Carrier Route	22.5

The test year revenue implications of my discount and rate proposals require some elaboration. First, my proposed changes in the discounts for workshared First-Class Mail are based on lower and more accurate cost calculations for the test year in the first instance, and an adoption of the Commission's MC95-1 methodology in lieu of the Postal Service's bulk-metered mail benchmark approach. The lower costs entail no revenue loss, but there is a very small revenue loss of \$117 million associated with my using the Commission's methodology. (See Technical Appendix C.1, page 5.) However, I propose a modest increase in the cost coverage of Standard A mail so that the test year revenue requirement is met.

¹⁴ In my expert opinion, there must be at least a one cent difference between the basic automation rate and the 3-digit rate to foster that added degree of worksharing.

1 With respect to my proposed 276% cost coverage for First-Class workshared
 2 mail, the cost coverage model developed in Technical Appendix C.2 projects a change
 3 in USPS test year finances as follows:

4
 5 USPS Finances
 6 with Proposed
 7 Discount and Cost
 8 Coverage Changes
 9

10	Revenue	\$61,157
11	Revenue Requirement	\$61,103
12	Surplus/(Deficit)	54

13
 14 The revenue loss associated with my cost coverage and rate proposals for First-Class
 15 workshared mail is eliminated by raising the cost coverages of Standard A mail from
 16 the USPS proposed 167% to 175%. Notably, my proposal raises the revenue
 17 contribution that Standard A commercial mail makes to the Postal Service by about
 18 \$469 million.

19
 20 In this proceeding, the Postal Service introduced a separate own price elasticity
 21 for First-Class workshared mail for the first time ever. It shows that this mailstream is
 22 less price inelastic than First-Class mail as a whole. The price elasticity of First-Class
 23 workshared mail (-0.289) is not that different from the price elasticity of Standard A
 24 mail (-0.382 for Regular and -0.598 for ECR), yet the Postal Service's proposed rates and
 25 cost coverages are very different for the two workshared mailstreams. This is highly
 26 inequitable. Furthermore, while both mailstreams are highly price inelastic, the new
 27 own price elasticity for workshared First-Class mail indicates that there are competitive
 28 alternatives to the Postal Service for this mailstream just as there are competitive
 29 alternatives for Standard A workshared mail. Therefore, economic efficiency would

1 appear to require that the cost coverages and rates for the two mailstreams be closer
2 than those proposed in this case by the Postal Service.

3
4 **V. Conclusion: The Modest Revenue Requirement in This Rate Case Affords the**
5 **Commission a Unique Opportunity for Long-Overdue Rate Restructuring and**
6 **Cost Coverage Rationality, and First-Class Workshared Letter Mail is the**
7 **Place to Begin**

8
9 In this docket, I am presenting two pieces of direct testimony:

10 (1) ABA/EEI/NAPM-T-1; (2) ABA/NAA-T-1. This testimony sets discounts for First-
11 Class workshared letter mail that are very conservative in light of the cost justification
12 analysis I present. That testimony also argues that, on grounds of economic efficiency
13 and equity, the cost coverage proposed by the Postal Service (283.3%) and the coverage
14 that emerges from my proposed discounts alone (287.1%) are too high. I propose a
15 more efficient and equitable set of rates which are based on cost coverage of 276%, and
16 make an adjustment in the cost coverage of Standard A workshared mail to keep my
17 proposal revenue neutral in the test year.

18
19 The other testimony is related to this testimony in that it demonstrates that the
20 cost coverage for the second and third ounces of First-Class workshared letter mail is
21 also too high (920%), and that the proposed 23 cent rate for the second and third ounces
22 is not at all cost-justified. The extra-ounce rate is also not equitable in light of the fact
23 that the second and third ounces of Standard A workshared letter mail pays a zero cent
24 extra-ounce rate. In that testimony, I propose an extra-ounce rate for First-Class
25 workshared letters based on a more-than-fair cost coverage of 420%. As with this
26 testimony, I keep my proposal revenue neutral in the test year by making a further
27 adjustment to the cost coverage of Standard A workshared mail.

28

1 The effects of both sets of proposals on USPS test year revenues, costs, volumes,
2 and cost coverages, and rates, are presented in detail in Appendix D. For First-Class
3 Mail, the effect of my proposals is to reduce the Postal Service's proposed cost coverage
4 from 199.47% to 197.33%. For First-Class workshared mail, the effect of my proposals
5 is to reduce the cost coverage from the Postal Service's proposed 283% to 271%. For
6 Standard A mail, the impact of all my proposals is to raise the cost coverage from the
7 Postal Service's proposed 167.04% to my proposed 177.50%. While I do not make any
8 formal rate recommendation for Standard A mail, most cost coverage is based on an
9 assumed uniform increase in the rates for the standard regular and ECR subclasses only
10 beyond the rates proposed by the Postal Service.

11
12 Under my combined proposals, the Postal Service has a net surplus of \$41.4
13 million in the test year and emerges with a set of postal rates that are more efficient and
14 equitable than those it has proposed. My proposed set of fully cost-justifiable rates is
15 also based, in part, on a principled rate restructuring that reflects what the general
16 public finds of greatest value in the nation's postal services and what it finds of lesser,
17 little or even negative value. These fundamental questions of rate restructuring that
18 better reflect the general public's needs and desires are particularly appropriate in this
19 case because the overall revenue needs of the Postal Service were relatively modest
20 when this case was filed in July and appear to be even more modest in light of
21 accounting period statements released since July. These fundamental questions should
22 be raised by the Commission because it is also the right thing to do.

ABA/EEI/NAPM-T-1
Technical Appendix A

TECHNICAL APPENDIX A

**Technical Appendix A.1
Calculation of 1998 CS6, 7, and 10 CRA Costs
Implied by Hume**

**Technical Appendix A.2
Cost Savings with Reduced Forwarding
of Workshared Mail**

**Technical Appendix A.3
Calculation of Volume-Weighted Delivery Costs**

**Technical Appendix A.4
First-Class Workshared Mail Processing Unit Cost
Based on USPS Test Year Volume Mix Shifts**

Technical Appendix A.1 Calculation of 1998 CS6, 7, and 10 CRA Costs Implied by Hume

Non-DPS Piece (Cost and Percentage)	DPS Piece (Cost and Percentage)	Unit Cost	Volume (Million Pieces)	Total Costs (Million Dollars)
4.091	2.114	2.925	5,369.390	157.030
41%	59%			
PreBarcoded Basic Letters	4.091	2.114	4,284.950	106.672
19%	81%	2.489		
Basic & 3/5-Digit Flats	3.758	3.758	282.211	10.604
100%				
3-Digit Letters	4.091	2.430	20,642.546	501.639
16%	84%			
5-Digit Letters	4.091	2.351	9,375.321	220.415
12%	88%	2.905	1,552.572	45.099
Carrier Route Letters	4.091			
40%	60%	2.509	41,506.990	1,041.458
First-Class Workshared				

Sources:

Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Direct Testimony of Peter Hume in Docket No. R97-1, USPS-T-18, Workpaper 1. The 1996 costs implied by Hume are calculated by setting Hume's piggyback factors equal to 1.

Technical Appendix A.2
Cost Savings with Reduced Forwarding
of Workshared Mail

	Reduction in Mail Forwarding				
	0%	10%	25%	33%	50%
1993 Volume * (millions)	32,650	32,650	32,650	32,650	32,650
1993 Percent Forwarded **	2.69%	2.69%	2.69%	2.69%	2.69%
Forwarded Mail (millions)	878	790	659	586	439
Cost per piece of Forwarded Mail	\$0.390	\$0.390	\$0.390	\$0.390	\$0.390
Cost of Forwarding	\$342.193	\$307.974	\$256.645	\$228.129	\$171.097
Cost per piece of Workshared Mail (cents)	1.048	0.943	0.786	0.699	0.524
Cost Savings per piece		0.105	0.262	0.349	0.524

Cost per Piece of Forwarded Mail Calculation

First Class Mail Volume (millions) *	92,169
1993 Percent Forwarded **	2.69%
Forwarded Mail (millions)	2,479
Cost of Forwarding (millions) **	\$965.991
Cost per piece of Forwarded Mail	\$0.390

Sources:

* LR-H-187, "Volume, Revenue, Rate, Fee, and Transaction Histories" in Docket No. R97-1:

**Volume, Characteristics, and Costs of Processing Undeliverable as Addressed Mail, LR-MCR-76.

Technical Appendix A.3 Calculation of Volume-Weighted Delivery Costs

	<u>Delivery Costs</u> <u>(Cents per Piece)</u>	<u>Test Year 1998 Before</u> <u>Rates Volume</u> <u>(Million Pieces)</u>
First-Class		
Presort Letters	4.146	4,994.580
Automation Letters		
Basic	3.711	4,284.950
3-Digit	3.652	20,642.546
5-Digit	3.573	9,375.321
Carrier Route	4.126	1,552.572
Presort Flats and Parcels	4.890	374.810
Automation Flats and Parcels		
Basic	4.890	48.688
3/5 Digit	4.890	233.523
First-Class Workshared Total	3.737	41,506.990
Standard (A) Regular		
Regular Presort Letters		
Basic	3.819	2,012.524
3/5-Digit	3.790	2,941.617
Automation Letters		
Basic	3.460	3,157.221
3-Digit	3.417	9,750.408
5-Digit	3.359	3,016.552
Regular Presort Flats or Nonletters		
Basic	7.012	1,447.459
3/5 Digit	7.012	2,502.548
Automation Flats		
Basic	6.222	231.295
3/5-Digit	6.222	9,299.383
Standard (A) Regular Total	4.663	34,359.007

Technical Appendix A.3 Calculation of Volume-Weighted Delivery Costs

	<u>Delivery Costs</u> <u>(Cents per Piece)</u>	Test Year 1998 Before <u>Rates Volume</u> <u>(Million Pieces)</u>
Standard (A) Enhanced Carrier Route		
Letters		
Auto Basic	3.357	2,123.223
Basic	4.367	6,781.043
High Density	3.759	394.077
Saturation	2.852	3,095.861
Flats or Nonletters		
Basic	5.849	10,706.608
High Density	5.157	1,150.761
Saturation	3.496	8,172.668
Standard (A) Enhanced Carrier Route Total	4.447	32,424.241

Sources:

Delivery Costs: Direct Testimony of Sharon Daniel in Docket No. R97-1, USPS-T-29, Exhibit USPS-29C (revised 10/1/97).

Volumes: Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Exhibit USPS-6A, Table 2 (revised 10/9/97).

Technical Appendix A.4

First-Class Workshared Mail Processing Unit Cost Based on USPS Test Year Volume Mix Shifts

	First-Class Workshared Mail Processing Direct Labor Unit Costs (Cents per Piece)	Nonautomation Share		
	[1]	[2]		
1994	2.867	41.38%		
1995	2.539	35.46%		
1996	2.468	28.76%		
Percentage Change 1994 to 1996	-13.91%	-30.51%		
[3]: Elasticity of Unit Cost with Respect to Nonautomation Share	0.4558			
			Percent Change in First-Class Workshared Mail Processing Direct Labor Unit Cost Forecast Using Historical Elasticity	First-Class Workshared Mail Processing Direct Labor Unit Cost Forecast Using Historical Elasticity (Cents per Piece)
	Nonautomation Share USPS Forecast	Nonautomation Share Growth	Forecast Using Historical Elasticity	
	[4]	[5]	[6]	[7]
1997	14.90%	-48.19%	-21.96%	1.9261
1998 Before Rates	13.01%	-12.67%	-5.77%	1.8149

Sources:

[1]: USPS, Cost and Revenue Analysis, Fiscal Year 1994, Fiscal Year 1995, and Fiscal Year 1996.

[2]: Direct Testimony of Thomas Thress in Docket No. 97-1, USPS-T-7, WP-1. Nonautomation mail is nonpresort ZIP+4 letters, 3/5-digit Presort ZIP+4 letters, and presort nonautomation letters.

[3]: Ratio of percentage change 1994 to 1996 of First-Class workshared mail processing direct labor unit costs to percentage change 1994 to 1996 of nonautomation share.

[4]: Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Table 2 (revised 10/9/97).

[5]: Rate of growth of [4].

[6]: [3] * [5].

[7]: $(1 + [6]) * \text{First-Class workshared mail processing direct labor unit costs in previous year.}$

ABA/EEI/NAPM-T-1
Technical Appendix B

TECHNICAL APPENDIX B

Technical Appendix B.1

First-Class Workshared

Mail Processing Unit Cost Methodology Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts

Technical Appendix B.2

First-Class Workshared

Mail Processing Unit Cost Methodology Historical Changes in Unit Cost FY94-FY96

ABA/EEI/NAPM-T-1
Technical Appendix B.1

TECHNICAL APPENDIX B.1

First-Class Workshared Mail Processing Unit Cost Methodology Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Summary of First-Class Workshared Letters Mail Processing Costs

Unit Mail Processing Costs (Cents per Piece)

Letters

Retail Presort	5.0179
Automation	
Basic	3.7072
3-Digit	3.1697
5-Digit	2.1095
Carrier Route	1.5968

Source: Adjusted First-Class Workshared Unit Mail Processing Costs, p. 2.

Test Year First-Class Workshared Costs

Base Year 1996

First-Class Workshared Letters Mail Processing Direct Labor Costs

(Alexandrovich, Thousand Dollars)	1,080,864
Volume (Thousand Pieces)	39,057,193
Unit Cost (Cents per Piece)	2.7674

Continuing Movement to Automation in First-Class

Nonautomation Share - BY96	28.76%
Nonautomation Share - TY98 Before Rates	13.01%
Elasticity of First-Class Mail Processing Unit	0.4558
Costs with Respect to Nonautomation Share	
Projected BY96 to TY98 Unit Cost Change	-0.6908
Projected TY98 Unit Cost (Cents per Piece)	2.0766
Volume (Thousand Pieces)	41,506,989
Total Costs (Thousand Dollars)	861,940
Pre-Test Year Costs (Thousand Dollars)	1,096,329
Ratio to Escalate to Test Year	0.7862

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 1996: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Pre-Test Year: LR-H-106.

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Adjusted First-Class Workshared Unit Mail Processing Costs

CRA Costs by Shape

First-Class non-carrier route presort - proportional	2.9612
First-Class non-carrier route presort - fixed	0.2491
Total First-Class non-carrier route presort	3.2103
 Total First-Class carrier route presort	 1.5968

Sources:

Proportional: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Fixed: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Carrier Route Presort: Test Year Volume Variable Costs with All Adjustments, p. 5.

Development of Adjustment Factors and Adjusted Costs

Nonautomation Presort Costs	<u>Model Cost</u>	<u>Weight</u>	<u>Weighted Cost</u>
	[1]	[2]	[3]
OCR Mail in OCR Trays	5.2952	48.26%	2.5555
CR Mail in Non-OCR Trays	5.1958	7.73%	0.4019
Non-OCR Mail in Non-OCR Trays	6.6992	44.00%	2.9479
Total		100.00%	5.9053

All Non-Carrier Route Presort	<u>Model Cost</u>	Test Year	<u>Total Cost</u>	Adjusted Unit
		Before Rates		
	[4]	<u>Volume</u>	[6]	<u>Cost</u>
		[5]		[7]
Nonautomation	5.9053	4,994,580	\$29,494,644	5.0179
Automation Basic	4.2822	4,284,955	\$18,349,134	3.7072
Automation 3-Digit	3.6167	20,642,552	\$74,658,013	3.1697
Automation 5-Digit	2.3038	9,375,320	\$21,598,818	2.1095
Total	3.6669	39,297,407	\$144,100,609	

First-Class non-carrier route presort letter proportional adjustment	0.8076
First-Class non-carrier route presort letter fixed adjustment	0.2491

Sources:

[1]: Exhibit USPS-25A, p. 2, [1].

[2]: Exhibit USPS-25A, p. 2, [2].

[3]: [1] * [2].

[4]: Exhibit USPS-25A, p. 2, [5].

[5]: Exhibit USPS-25A, p. 2, [6].

[6]: [4] * [5].

[7]: [4] * Proportional Adjustment + Fixed Adjustment.

Proportional adjustment: CRA Cost by Shape proportional adjustment divided by non-CR model cost.

Fixed adjustment: CRA Cost by Shape fixed adjustment.

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	bcs/	0.7642	X		0.7642	
mods	express	0.0012	X		0.0012	
mods	fsm/	0.0025	X		0.0025	
mods	lsm/	0.0321	X		0.0321	
mods	manf	0.0054	X		0.0054	
mods	manl	0.3188	X		0.3188	
mods	manp	0.0012	X		0.0012	
mods	mecparc	0.0000	X		0.0000	
mods	ocr/	0.1149	X		0.1149	
mods	priority	0.0028	X		0.0028	
mods	spbs Oth	0.0015	X		0.0015	
mods	spbsPrio	0.0033	X		0.0033	
mods	BusReply	0.0027	X		0.0027	
mods	INTL	0.0038	X		0.0038	
mods	LD15	0.3155	X		0.3155	
mods	LD41	0.0226	X		0.0226	
mods	LD42	0.0004	X		0.0004	
mods	LD43	0.1109	X		0.1109	
mods	LD44	0.0475	X		0.0475	
mods	LD48 Exp	0.0000	X		0.0000	
mods	LD48 Oth	0.0061	X		0.0061	
mods	LD48_SSv	0.0021	X		0.0021	
mods	LD49	0.1718	X		0.1718	
mods	LD79	0.0487	X		0.0487	
mods	MAILGRAM	0.0000	X		0.0000	
mods	Registry	0.0000	X		0.0000	
mods	REWRAP	0.0005	X		0.0005	
mods	1Bulk pr	0.0095	X		0.0095	
mods	1CancMPP	0.0194	X		0.0194	
mods	1EEQMT	0.0094	X		0.0094	
mods	1MISC	0.0224	X		0.0224	

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	1OPbulk	0.0257	X		0.0257	
mods	1OPpref	0.1798	X		0.1798	
mods	1Platfrm	0.1766		X		0.1766
mods	1POUCHNG	0.1288	X		0.1288	
mods	1SackS_h	0.0235		X		0.0235
mods	1SackS_m	0.0026		X		0.0026
mods	1SCAN	0.0174	X		0.0174	
mods	1SUPPORT	0.0251	X		0.0251	
BMCs	nmo	0.0000		X		0.0000
BMCs	psm	0.0000		X		0.0000
BMCs	spb	0.0002		X		0.0002
BMCs	ssm	0.0000		X		0.0000
BMCs	Othr	0.0000		X		0.0000
BMCs	Pla	0.0007		X		0.0007
Non Mods		0.5890	92.27%	7.73%	0.5434	0.0455
Total		3.2103			2.9612	0.2491

Sources:

[1]: Test Year Mail Processing Volume Variable Labor and Piggybacked Costs by Cost Pool for Letter Shape by Category with All Adjustments, p. 3.

[2]: Cost pools that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[3]: Cost pools that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2).

[4]: Mail processing costs that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[5]: Mail processing costs that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2). The non mods costs have been split between proportional and fixed based on the split of the aggregate of all mods cost pools (USPS-T-25, Appendix V, pp. 1-2).

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Test Year Mail Processing Volume Variable Labor and Piggybacked Costs
by Cost Pool by Shape by Category With All Adjustments

COST POOL		Letters			Flats			Parcels	
		1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
		Single P	Carr-Rt	NCarr-Rt	Single P	Carr-Rt	NCarr-Rt	Single P	NCarr-Rt
mods	bcs/	1.731	0.407	0.764	0.043	0.000	0.001	0.158	0.798
mods	express	0.004	0.000	0.001	0.018	0.000	0.001	0.130	0.009
mods	fstn/	0.047	0.004	0.003	12.678	0.000	5.068	0.501	0.006
mods	lsm/	0.251	0.011	0.032	0.012	0.000	0.005	0.026	0.000
mods	manf	0.036	0.006	0.005	3.789	0.000	2.015	0.615	0.004
mods	manl	1.829	0.066	0.319	0.436	0.000	0.259	0.583	1.614
mods	manp	0.005	0.000	0.001	0.024	0.000	0.045	0.787	0.001
mods	mecparc	0.003	0.000	0.000	0.009	0.000	0.001	0.271	0.005
mods	ocr/	0.559	0.071	0.115	0.046	0.000	0.000	0.159	0.001
mods	priority	0.009	0.000	0.003	0.064	0.000	0.000	1.011	0.142
mods	spbs Oth	0.012	0.012	0.002	0.179	0.000	0.100	6.538	0.340
mods	spbsPrio	0.002	0.002	0.003	0.061	0.000	0.072	2.751	0.003
mods	BusReply	0.018	0.000	0.003	0.044	0.000	0.000	0.128	0.003
mods	INTL	0.026	0.000	0.004	0.017	0.000	0.000	0.226	0.001
mods	LD15	1.817	0.142	0.315	0.149	0.000	0.000	-	-
mods	LD41	0.038	0.010	0.023	0.000	0.000	0.000	0.000	-
mods	LD42	0.002	0.000	0.000	0.010	0.000	0.000	0.001	0.000
mods	LD43	0.390	0.073	0.111	1.102	0.000	0.564	2.768	0.782
mods	LD44	0.145	0.012	0.047	0.280	0.000	0.078	0.246	0.002
mods	LD48 Exp	0.000	0.000	0.000	0.003	0.000	0.000	0.002	0.000
mods	LD48 Oth	0.018	0.003	0.006	0.040	0.000	0.017	0.100	0.015
mods	LD48_Ssv	0.011	0.003	0.002	0.014	0.000	0.013	0.033	0.001
mods	LD49	0.209	0.027	0.172	0.440	0.000	0.563	0.226	0.003
mods	LD79	0.018	0.030	0.049	0.035	0.000	0.130	0.293	0.016
mods	MAILGRAM	0.000	0.000	0.000	0.000	0.000	0.000	-	-
mods	Registry	0.004	0.000	0.000	0.008	0.000	0.000	0.083	0.002
mods	REWRAP	0.019	0.000	0.000	0.010	0.000	0.003	0.002	0.002
mods	1Bulk pr	0.004	0.030	0.009	0.027	0.000	0.020	0.022	0.006
mods	1CancMPP	0.570	0.009	0.019	1.117	0.000	0.335	3.350	1.845
mods	1EEQMT	0.037	0.007	0.009	0.097	0.000	0.043	0.450	0.102
mods	1MISC	0.118	0.018	0.022	0.333	0.000	0.127	0.823	0.136
mods	1OPbulk	0.099	0.000	0.026	0.458	0.000	0.484	1.579	0.081
mods	1OPpref	0.489	0.172	0.180	1.568	0.000	0.708	16.630	2.883
mods	1Platfrm	0.573	0.114	0.177	2.471	0.000	0.952	12.838	3.377
mods	1POUCHNG	0.402	0.094	0.129	1.513	0.000	0.345	10.826	1.511
mods	1SackS_h	0.048	0.000	0.023	0.239	0.000	0.120	0.777	-
mods	1SackS_m	0.024	0.003	0.003	0.071	0.000	0.254	0.400	0.006
mods	1SCAN	0.049	0.008	0.017	0.108	0.000	0.039	0.181	0.023
mods	1SUPPORT	0.115	0.012	0.025	0.341	0.000	0.145	0.752	0.155
BMCs	nmo	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
BMCs	psm	0.000	0.000	0.000	0.000	0.000	0.000	0.270	-
BMCs	spb	0.001	0.028	0.000	0.000	0.000	0.000	0.296	-
BMCs	ssm	0.001	0.008	0.000	0.000	0.000	0.000	0.000	-
BMCs	Othr	0.003	0.000	0.000	0.034	0.000	0.000	0.109	-
BMCs	Pla	0.001	0.003	0.001	0.004	0.000	0.000	0.134	-
Non Mods		2.006	0.212	0.589	4.535	0.000	2.038	7.003	1.432
Total Unit Cost		11.742	1.597	3.210	32.427	0.000	14.545	74.078	15.305
FY98 Volumes (in millions)		49,065	1,553	39,297	4,878	1	631	451	26
FY98 Unit Costs		11.902	1.610	3.237	32.869	0.000	14.667	75.088	15.433
Before Reconciliation									

Source: Piggyback factors, reconciliation and escalation factors (pp. 10 and 11) applied to FY96 costs with worksheet adjustments, premium pay, and other reductions (p. 6).

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape and Category with Worksheet Adjustments, Premium Pay Factors, and
Adjustments to Cost Pools Due to Cost Reductions and Other Programs

COST POOL		Letters			Flats			Parcels	
		1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
		Single P	Carr-Rt	NCarr-Rt	Single P	Carr-Rt	NCarr-Rt	Single P	NCarr-Rt
mods	bcs/	401,736	6,590	190,413	990	0	3	337	210
mods	express	1,331	3	471	618	0	4	426	4
mods	fsm/	14,484	93	830	388,171	220	18,644	1,420	2
mods	lsm/	52,982	168	7,268	258	0	13	50	0
mods	manf	11,870	144	1,913	123,550	0	7,896	1,855	1
mods	manl	630,399	1,582	117,958	14,953	-	1,065	1,849	631
mods	manp	1,474	1	389	733	0	164	2,227	0
mods	mecparc	674	1	13	228	0	3	652	1
mods	ocr/	126,131	1,122	27,818	1,032	0	1	331	0
mods	priority	2,936	0	982	2,104	2	0	3,070	53
mods	spbs Oth	3,400	228	451	4,913	-	330	16,644	107
mods	spbsPrio	534	36	1,040	1,778	1	251	7,419	1
mods	BusReply	5,731	0	937	1,395	0	0	377	1
mods	INTL	7,310	-	1,175	471	-	-	592	0
mods	LD15	592,399	3,222	110,403	4,838	-	-	-	-
mods	LD41	8,777	161	5,581	0	-	-	0	-
mods	LD42	646	0	107	264	0	0	3	0
mods	LD43	128,631	1,674	39,207	36,084	229	2,219	8,392	292
mods	LD44	50,053	288	17,645	9,642	2	321	782	1
mods	LD48 Exp	118	1	14	94	1	0	6	0
mods	LD48 Oth	6,328	76	2,231	1,377	5	70	316	6
mods	LD48_Ssv	3,681	72	778	478	-	55	105	0
mods	LD49	66,189	595	58,283	13,839	0	2,127	656	1
mods	LD79	5,939	690	17,230	1,161	249	513	889	6
mods	MAILGRAM	-	-	-	-	-	-	-	-
mods	Registry	1,282	0	6	292	0	2	274	1
mods	REWRAP	6,272	1	170	333	0	14	7	1
mods	1Bulk pr	1,272	637	3,077	812	1	73	60	2
mods	1CancMPP	125,748	134	4,592	24,495	0	882	6,802	462
mods	1EEQMT	11,269	143	3,065	2,928	30	157	1,264	35
mods	1MISC	39,615	420	8,099	11,129	12	509	2,547	52
mods	1OPbulk	29,178	-	8,137	13,458	-	1,708	4,292	27
mods	1OPpref	143,743	3,526	56,685	45,786	-	2,485	44,938	961
mods	1Platfrm	146,797	2,038	48,592	62,973	284	2,917	30,285	983
mods	1POUCHING	114,295	1,866	39,300	42,774	361	1,172	28,319	488
mods	1SackS_h	12,862	-	6,710	6,324	-	381	1,901	-
mods	1SackS_m	5,916	52	668	1,718	200	738	895	2
mods	1SCAN	14,663	167	5,551	3,206	3	138	496	8
mods	1SUPPORT	40,924	299	9,590	12,086	13	616	2,464	63
BMCs	rmo	0	2	0	1	-	-	0	-
BMCs	psm	-	-	-	-	-	-	580	-
BMCs	spb	213	554	75	2	-	-	773	-
BMCs	ssm	109	112	0	6	-	-	0	-
BMCs	Othr	828	-	-	935	-	-	281	-
BMCs	Pla	145	43	160	88	-	-	274	-
Non Mods		656,068	4,835	206,780	147,432	371	7,961	21,075	532
Total		3,474,953	31,580	1,004,397	985,745	1,983	53,433	195,924	4,936

Source: Premium pay and cost reduction and other programs adjustment ratios for each cost pool (pp. 10 and 11) applied to FY96 Costs with worksharing adjustments (p. 7).

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape by Category with Cost Segment 3 Worksheet Adjustments

COST POOL		Letters			Flats			Parcels	
		1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
		Single P	Carr-Rt	NCarr-Rt	Single P	Carr-Rt	NCarr-Rt	Single P	NCarr-Rt
mods bcs/		342,047	5,663	163,630	843	0	3	287	181
mods express		1,305	3	466	606	0	4	417	4
mods fsm/		13,319	87	770	356,956	205	17,304	1,306	2
mods lsm/		493,334	1,580	68,308	2,406	1	119	461	1
mods manf		15,220	187	2,476	158,417	0	10,218	2,379	2
mods manl		617,818	1,565	116,680	14,655	-	1,053	1,812	625
mods manp		1,445	1	385	718	0	162	2,183	0
mods mecparc		660	1	13	223	0	3	639	1
mods ocr/		118,325	1,062	26,339	968	0	1	310	0
mods priority		2,877	0	971	2,062	2	0	3,009	52
mods spbs Oth		2,715	184	364	3,923	-	266	13,290	86
mods spbsPrio		523	35	1,029	1,742	1	248	7,271	1
mods BusReply		5,617	0	927	1,367	0	0	369	1
mods INTL		7,164	-	1,162	462	-	-	581	0
mods LD15		275,408	1,512	51,804	2,249	-	-	-	-
mods LD41		8,602	160	5,520	0	-	-	0	-
mods LD42		634	0	106	259	0	0	3	0
mods LD43		126,064	1,656	38,782	35,364	227	2,195	8,224	289
mods LD44		49,054	285	17,454	9,449	2	317	766	1
mods LD48 Exp		116	1	14	92	1	0	6	0
mods LD48 Oth		6,202	75	2,207	1,349	5	69	310	6
mods LD48_Ssv		3,608	71	770	468	-	55	103	0
mods LD49		66,753	606	59,328	13,957	0	2,165	661	1
mods LD79		5,820	683	17,044	1,138	246	508	871	6
mods MAILGRAM		-	-	-	-	-	-	-	-
mods Registry		1,256	0	6	286	0	2	268	1
mods REWRAP		6,147	1	168	326	0	13	7	1
mods 1Bulk pr		1,246	630	3,044	795	1	73	59	2
mods 1CancMPP		126,475	136	4,662	24,637	0	895	6,841	469
mods 1EEQMT		11,044	142	3,032	2,869	30	156	1,238	35
mods 1MISC		38,824	416	8,011	10,906	12	503	2,496	52
mods 1OPbulk		32,176	-	9,057	14,841	-	1,901	4,733	30
mods 1OPpref		148,040	3,665	58,924	47,154	-	2,583	46,281	999
mods 1Platfrm		143,867	2,015	48,066	61,716	281	2,885	29,680	972
mods 1POUCHNG		112,014	1,846	38,874	41,920	357	1,160	27,754	482
mods 1Sacks_h		12,605	-	6,637	6,198	-	377	1,864	-
mods 1Sacks_m		5,798	51	661	1,683	197	730	877	2
mods 1SCAN		14,371	165	5,491	3,142	3	137	486	8
mods 1SUPPORT		40,107	296	9,487	11,845	13	609	2,415	62
BMCs rmo_4/		0	2	0	1	-	-	0	-
BMCs psm_4/		-	-	-	-	-	-	569	-
BMCs spb_4/		208	548	74	2	-	-	757	-
BMCs ssm_4/		107	111	0	6	-	-	0	-
BMCs Othr_4/		812	-	-	916	-	-	275	-
BMCs Pla_4/		146	44	163	88	-	-	277	-
Non Mo _5/		642,975	4,783	204,539	144,490	367	7,875	20,654	526
Total		3,502,850	30,269	977,442	983,496	1,949	54,590	192,791	4,900

Source: Worksharing adjustments (p. 9) applied to FY96 volume variable costs (p. 8).

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
FY96 Mail Processing Volume Variable Costs by Cost Pool

COST POOL	Letters			Flats			Parcels	
	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. NCarr-Rt
mods bcs/	341,122	5,648	163,212	840	0	3	286	180
mods express	1,301	3	465	604	0	4	416	4
mods fsm/	13,283	87	769	355,991	204	17,260	1,302	2
mods lsm/	492,000	1,576	68,134	2,399	1	118	460	1
mods manf	15,179	186	2,469	157,989	0	10,192	2,372	2
mods manl	616,148	1,561	116,382	14,615	-	1,051	1,808	623
mods manp	1,441	1	384	716	0	162	2,177	0
mods mecparc	658	1	13	223	0	3	637	1
mods ocr/	118,005	1,060	26,272	965	0	1	309	0
mods priority	2,870	0	968	2,057	2	0	3,001	52
mods spbs Oth	2,708	184	363	3,912	-	265	13,254	86
mods spbsPrio	522	35	1,026	1,738	1	248	7,251	1
mods BusReply	5,602	0	925	1,364	0	0	368	1
mods INTL	7,145	-	1,159	460	-	-	579	0
mods LD15	274,663	1,508	51,672	2,243	-	-	-	-
mods LD41	8,579	159	5,506	0	-	-	0	-
mods LD42	632	0	106	258	0	0	3	0
mods LD43	125,723	1,652	38,683	35,268	226	2,189	8,202	288
mods LD44	48,921	285	17,409	9,424	2	317	764	1
mods LD48 Exp	116	1	14	92	1	0	6	0
mods LD48 Oth	6,185	75	2,201	1,346	5	69	309	6
mods LD48_Ssv	3,598	71	768	467	-	55	103	0
mods LD49	66,573	604	59,176	13,919	0	2,159	660	1
mods LD79	5,804	681	17,000	1,135	245	506	869	6
mods MAILGRAM	-	-	-	-	-	-	-	-
mods Registry	1,253	0	6	286	0	2	268	1
mods REWRAP	6,131	1	167	325	0	13	7	1
mods 1Bulk pr	1,243	629	3,036	793	1	72	59	2
mods 1CancMPP	126,133	135	4,650	24,570	0	893	6,823	468
mods 1EEQMT	11,014	141	3,024	2,862	30	155	1,235	35
mods 1MISC	38,719	414	7,991	10,877	12	502	2,489	51
mods 1OPbulk	32,089	-	9,034	14,801	-	1,897	4,720	30
mods 1OPpref	147,640	3,656	58,773	47,027	-	2,576	46,156	997
mods 1Platfrm	143,478	2,010	47,943	61,549	280	2,878	29,600	970
mods 1POUCHNG	111,711	1,841	38,775	41,807	356	1,157	27,679	481
mods 1SackS_h	12,571	-	6,620	6,182	-	376	1,859	-
mods 1SackS_m	5,783	51	659	1,679	197	728	875	2
mods 1SCAN	14,332	165	5,477	3,133	3	136	484	8
mods 1SUPPORT	39,999	295	9,462	11,813	13	608	2,408	62
BMCs nmo	0	2	0	1	-	-	0	-
BMCs psm	-	-	-	-	-	-	553	-
BMCs spb	203	533	72	2	-	-	736	-
BMCs ssm	104	108	0	6	-	-	0	-
BMCs Othr	789	-	-	891	-	-	268	-
BMCs Pla	142	43	158	86	-	-	269	-
Non Mods	632,718	4,707	201,306	142,185	361	7,750	20,325	518
Total	3,484,829	30,111	972,230	978,897	1,939	54,346	191,949	4,880

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. II-1, III-1, and IV-1.

**First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Cost Segment 3 Worksheet Adjustments***

BMC Mail Processing Labor Costs

Line No.	(1) BMC Costs (excl clocking in & out)	(2) BMC clocking in & out	(3) BMC Costs Total	(4) BMC ratio Ratio
1	616,383	15,816	632,199	1.025659371
Source:	page 2, C3	page 2, C4	C1 + C2	C3/C1

Non-MODS Mail Processing Costs

	(1) Non-MODS Costs (excl clocking in & out)	(2) Non-MODS clocking in & out	(3) Non-MODS Total Costs	(4) Non-MODS Costs Ratio
2	2,324,491	31,295	2,355,786	1.013463162
Source:	page 2, C5	page 2, C6	C1 + C2	C3/C1

Lump Sum Adjustment for Mail Processing Labor Costs

	(1) Total Labor Cost w/o Lump Sum	(2) Lump Sum	(3) Total	(4) Ratio
3	13,213,586	33,826	13,247,412	1.002559941
Source:	page 4, C7	page 4, C8	C1 + C2	C3/C1

Normal Feature & Special Delivery Adjustment

First-Class Mail Categories:		(1) Before Adj.	(2) Adjustmt.	(3) Total	(4) Ratio
4	Letters and Sealed Parcels	4,678,429	705	4,679,134	1.000150692
5	Presort Letters and Sealed Parcels	1,069,149	1	1,069,150	1.000000935
6	Presort Cards	35,957		35,957	1
Source:		page 3, C2 times C4L3 of this page	page 3, C4 + C10	C1 + C2	C3/C1

* All page references are to Witness Alexandrovich, USPS-T-5, WP B-3, W/S 3.1.1.

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-1

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Adjustment Ratios for Premium Pay, Mail Processing Piggyback,
Roll Forward, Reconciliation, and Shape/Presort Mix

	Letters		
	<u>1st Cl.</u> <u>Single P</u>	<u>1st Pr.</u> <u>Carr-Rt</u>	<u>1st Pr.</u> <u>NCarr-Rt</u>
Unadjusted Base Year	4,679,134		1,069,150
With Premium Pay	4,774,417		1,080,864
Prem Pay Adjustment	1.020363383	1.010956367	1.010956367
TY98 Mail Processing Direct Labor Cost	4,899,428		861,940
Mail Processing Piggyback Factor	1.56702		1.6035
TY98 Cost * Piggyback	7,677,502		1,382,121
Spreadsheet Pre-Test Year Costs	4,656,621	33,563	1,096,329
Rollforward Ratio to Test Year	1.052142378	0.786205716	0.786205716
TY98 Unit Costs Reconciliation Target	7,677,502		1,382,121
TY98 Unit Costs Before Reconciliation	7,782,179	24,999	1,368,670
TY98 Reconciliation Ratio	0.98655		0.99171

Shape/Presort Adjustment to Reflect the Mail Mix Adjustment

		Percent of	Pre-Test	Percent of	Shape/
		Costs from	Year Costs	Costs from	Presort
		<u>Mail Mix</u>		<u>Pre-Test</u>	<u>Adjustment</u>
				<u>Year</u>	<u>Ratios</u>
Non-Carrier Route	Letter	91.00%	1,004,397	91.61%	0.993
	Flat	6.98%	53,433	4.87%	1.432
	Parcel	0.28%	4,936	0.45%	0.632
Carrier Route	Letter	1.74%	31,580	2.88%	0.604
	Flat		1,983	0.18%	0.000
All	Total	100.00%	1,096,329	100.00%	

Source:

TY98 Mail Processing Direct Labor Cost: Summary of First-Class Workshared Letter Mail Processing Costs.

Other Data: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-3.

First-Class Workshared Mail Processing Unit Cost Methodology
Changes in Unit Costs Based on USPS Test-Year Volume Mix Shifts
Adjustment Ratio for Cost Reductions & Other Programs and Piggyback Factors by Cost Pool

<u>COST POOL</u>		<u>Cost Reductions & Other Programs</u>	<u>Escalated Volume Variable Costs</u>	<u>Adjustment Ratio</u>	<u>Mail Processing Operation Specific Piggyback Factors</u>
mods	bcs/	106,016	701,786	1.151066261	2.0366
mods	express			1	1.3314
mods	fsm/	48,479	737,374	1.065745839	1.5347
mods	lsm/	(645,753)	721,715	0.105253011	2.2404
mods	manf	(114,519)	485,950	0.764339432	1.4412
mods	manl			1	1.3716
mods	manp			1	1.5361
mods	mecparc			1	1.8078
mods	ocr/	8,584	192,065	1.044694418	2.0954
mods	priority			1	1.4326
mods	spbs Oth	20,237	89,010	1.227361215	1.7085
mods	spbsPrio			1	1.6129
mods	BusReply			1	1.4770
mods	INTL			1	1.6572
mods	LD15	463,212	418,037	2.108064075	1.4499
mods	LD41			1	2.0535
mods	LD42			1	1.7317
mods	LD43			1	1.4347
mods	LD44			1	1.3659
mods	LD48 Exp			1	1.3135
mods	LD48 Oth			1	1.3773
mods	LD48_S5v			1	1.3629
mods	LD49	(7,070)	250,265	0.971749985	1.4954
mods	LD79			1	1.4356
mods	MAILGRAM			1	1.3724
mods	Registry			1	1.3130
mods	REWRAP			1	1.4314
mods	1Bulk pr			1	1.5609
mods	1CancMPP	(5,248)	205,074	0.974411667	2.1420
mods	1EEQMT			1	1.5490
mods	1MISC			1	1.4054
mods	1OPbulk	(28,317)	254,460	0.888718035	1.6004
mods	1OPpref	(28,317)	584,956	0.951591551	1.6095
mods	1Platfrm			1	1.8438
mods	1POUCHNG			1	1.6626
mods	1SackS_h			1	1.7763
mods	1SackS_m			1	1.9417
mods	1SCAN			1	1.5869
mods	1SUPPORT			1	1.3267
BMCs	nmo			1	1.6468
BMCs	psm			1	2.0267
BMCs	spb			1	1.6670
BMCs	ssm			1	2.4141
BMCs	Othr			1	1.6866
BMCs	Pla	(2,983)	104,589	0.971478864	2.1252
Non Mods				1	1.4453
Total		(185,677)	4,745,281		

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-2.

ABA/EEI/NAPM-T-1
Technical Appendix B.2

TECHNICAL APPENDIX B.2

**First-Class Workshared
Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96**

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Summary of First-Class Workshared Letters Mail Processing Costs

Unit Mail Processing Costs (Cents per Piece)

Letters

Retail Presort	5.7230
Automation	
Basic	4.2281
3-Digit	3.6151
5-Digit	2.4059
Carrier Route	1.8212

Source: Adjusted First-Class Workshared Unit Mail Processing Costs, p. 2.

Test Year First-Class Workshared Costs

Base Year 1996

First-Class Workshared Letters Mail Processing Direct Labor Costs

(Alexandrovich, Thousand Dollars)	1,080,864
Volume (Thousand Pieces)	39,057,193
Unit Cost (Cents per Piece)	2.7674

Historical Changes in Unit Costs FY94 to FY96

Level Change FY94 to FY96 (Cents per Piece)	-0.3990
Projected TY98 Unit Cost (Cents per Piece)	2.3684
Change from BY96 (Cents per Piece)	-0.3990
Volume (Thousand Pieces)	41,506,989
Total Costs (Thousand Dollars)	983,046
Pre-Test Year Costs (Thousand Dollars)	1,096,329
Ratio to Escalate to Test Year	0.8967

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 1996: Direct Testimony of Joe Alexandrovich in Docket No. R97
1, USPS-T-5, Exhibit USPS-5C.

Pre-Test Year: LR-H-106.

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Adjusted First-Class Workshared Unit Mail Processing Costs

CRA Costs by Shape

First-Class non-carrier route presort - proportional	3.3773
First-Class non-carrier route presort - fixed	0.2840
Total First-Class non-carrier route presort	3.6613
 Total First-Class carrier route presort	 1.8212

Sources:

Proportional: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Fixed: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Carrier Route Presort: Test Year Volume Variable Costs with All Adjustments, p. 5.

Development of Adjustment Factors and Adjusted Costs

Nonautomation Presort Costs	<u>Model Cost</u>	<u>Weight</u>	<u>Weighted Cost</u>
	[1]	[2]	[3]
OCR Mail in OCR Trays	5.2952	48.26%	2.5555
CR Mail in Non-OCR Trays	5.1958	7.73%	0.4019
Non-OCR Mail in Non-OCR Trays	6.6992	44.00%	2.9479
Total		100.00%	5.9053

All Non-Carrier Route Presort	<u>Model Cost</u>	<u>Test Year Before Rates Volume</u>	<u>Total Cost</u>	<u>Adjusted Unit Cost</u>
	[4]	[5]	[6]	[7]
Nonautomation	5.9053	4,994,580	\$29,494,644	5.7230
Automation Basic	4.2822	4,284,955	\$18,349,134	4.2281
Automation 3-Digit	3.6167	20,642,552	\$74,658,013	3.6151
Automation 5-Digit	2.3038	9,375,320	\$21,598,818	2.4059
Total	3.6669	39,297,407	\$144,100,609	

First-Class non-carrier route presort letter proportional adjustment	0.9210
First-Class non-carrier route presort letter fixed adjustment	0.2840

Sources:

[1]: Exhibit USPS-25A, p. 2, [1].

[2]: Exhibit USPS-25A, p. 2, [2].

[3]: [1] * [2].

[4]: Exhibit USPS-25A, p. 2, [5].

[5]: Exhibit USPS-25A, p. 2, [6].

[6]: [4] * [5].

[7]: [4] * Proportional Adjustment + Fixed Adjustment.

Proportional adjustment: CRA Cost by Shape proportional adjustment divided by non-CR model cost.

Fixed adjustment: CRA Cost by Shape fixed adjustment.

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	bcs/	0.8716	X		0.8716	
mods	express	0.0014	X		0.0014	
mods	fsm/	0.0029	X		0.0029	
mods	lsm/	0.0366	X		0.0366	
mods	manf	0.0062	X		0.0062	
mods	manl	0.3636	X		0.3636	
mods	manp	0.0013	X		0.0013	
mods	mecparc	0.0001	X		0.0001	
mods	ocr/	0.1310	X		0.1310	
mods	priority	0.0032	X		0.0032	
mods	spbs Oth	0.0017	X		0.0017	
mods	spbsPrio	0.0038	X		0.0038	
mods	BusReply	0.0031	X		0.0031	
mods	INTL	0.0044	X		0.0044	
mods	LD15	0.3598	X		0.3598	
mods	LD41	0.0258	X		0.0258	
mods	LD42	0.0004	X		0.0004	
mods	LD43	0.1264	X		0.1264	
mods	LD44	0.0542	X		0.0542	
mods	LD48 Exp	0.0000	X		0.0000	
mods	LD48 Oth	0.0069	X		0.0069	
mods	LD48_SSv	0.0024	X		0.0024	
mods	LD49	0.1959	X		0.1959	
mods	LD79	0.0556	X		0.0556	
mods	MAILGRAM	0.0000	X		0.0000	
mods	Registry	0.0000	X		0.0000	
mods	REWRAP	0.0005	X		0.0005	
mods	1Bulk pr	0.0108	X		0.0108	
mods	1CancMPP	0.0221	X		0.0221	
mods	1EEQMT	0.0107	X		0.0107	
mods	1MISC	0.0256	X		0.0256	

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	1OPbulk	0.0293	X		0.0293	
mods	1OPpref	0.2051	X		0.2051	
mods	1Platfrm	0.2014		X		0.2014
mods	1POUCHNG	0.1469	X		0.1469	
mods	1SackS_h	0.0268		X		0.0268
mods	1SackS_m	0.0029		X		0.0029
mods	1SCAN	0.0198	X		0.0198	
mods	1SUPPORT	0.0286	X		0.0286	
BMCs	nmo	0.0000		X		0.0000
BMCs	psm	0.0000		X		0.0000
MCs	spb	0.0003		X		0.0003
BMCs	ssm	0.0000		X		0.0000
BMCs	Othr	0.0000		X		0.0000
BMCs	Pla	0.0008		X		0.0008
Non Mods		0.6717	92.27%	7.73%	0.6198	0.0519
Total		3.6613			3.3773	0.2840

Sources:

[1]: Test Year Mail Processing Volume Variable Labor and Piggybacked Costs by Cost Pool for Letter Shape by Category with All Adjustments, p. 3.

[2]: Cost pools that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[3]: Cost pools that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2).

[4]: Mail processing costs that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[5]: Mail processing costs that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2).

The non mods costs have been split between proportional and fixed based on the split of the aggregate of all mods cost pools (USPS-T-25, Appendix V, pp. 1-2).

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Test Year Mail Processing Volume Variable Labor and Piggybacked Costs
by Cost Pool by Shape by Category With All Adjustments

COST POOL		Letters			Flats			Parcels	
		1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. NCarr-Rt
mods bcs/		1.731	0.464	0.872	0.043	0.000	0.001	0.158	0.910
mods express		0.004	0.000	0.001	0.018	0.000	0.001	0.130	0.011
mods fsm/		0.047	0.005	0.003	12.678	0.000	5.780	0.501	0.007
mods lsm/		0.251	0.013	0.037	0.012	0.000	0.006	0.026	0.000
mods manf		0.036	0.007	0.006	3.789	0.000	2.298	0.615	0.004
mods manl		1.829	0.075	0.364	0.436	0.000	0.295	0.583	1.841
mods manp		0.005	0.000	0.001	0.024	0.000	0.051	0.787	0.001
mods mecparc		0.003	0.000	0.000	0.009	0.000	0.001	0.271	0.006
mods ocr/		0.559	0.081	0.131	0.046	0.000	0.000	0.159	0.001
mods priority		0.009	0.000	0.003	0.064	0.000	0.000	1.011	0.161
mods spbs Oth		0.012	0.013	0.002	0.179	0.000	0.114	6.538	0.388
mods spbsPrio		0.002	0.002	0.004	0.061	0.000	0.082	2.751	0.003
mods BusReply		0.018	0.000	0.003	0.044	0.000	0.000	0.128	0.003
mods INTL		0.026	0.000	0.004	0.017	0.000	0.000	0.226	0.001
mods LD15		1.817	0.161	0.360	0.149	0.000	0.000	-	-
mods LD41		0.038	0.011	0.026	0.000	0.000	0.000	0.000	-
mods LD42		0.002	0.000	0.000	0.010	0.000	0.000	0.001	0.000
mods LD43		0.390	0.083	0.126	1.102	0.000	0.643	2.768	0.891
mods LD44		0.145	0.014	0.034	0.280	0.000	0.089	0.246	0.002
mods LD48 Exp		0.000	0.000	0.000	0.003	0.000	0.000	0.002	0.000
mods LD48 Oth		0.018	0.004	0.007	0.040	0.000	0.020	0.100	0.018
mods LD48_SSv		0.011	0.003	0.002	0.014	0.000	0.015	0.033	0.001
mods LD49		0.209	0.031	0.196	0.440	0.000	0.642	0.226	0.003
mods LD79		0.018	0.034	0.056	0.035	0.000	0.149	0.293	0.018
mods MAILGRAM		0.000	0.000	0.000	0.000	0.000	0.000	-	-
mods Registry		0.004	0.000	0.000	0.008	0.000	0.000	0.083	0.002
mods REWRAP		0.019	0.000	0.001	0.010	0.000	0.004	0.002	0.002
mods 1Bulk pr		0.004	0.034	0.011	0.027	0.000	0.023	0.022	0.007
mods 1CancMPP		0.570	0.010	0.022	1.117	0.000	0.382	3.350	2.104
mods 1EEQMT		0.037	0.008	0.011	0.097	0.000	0.049	0.450	0.116
mods 1MISC		0.118	0.020	0.026	0.333	0.000	0.144	0.823	0.156
mods 1OPbulk		0.099	0.000	0.029	0.458	0.000	0.552	1.579	0.093
mods 1OPpref		0.489	0.196	0.205	1.568	0.000	0.808	16.630	3.288
mods 1Platfrm		0.573	0.130	0.201	2.471	0.000	1.086	12.838	3.851
mods 1POUCHNG		0.402	0.107	0.147	1.513	0.000	0.394	10.826	1.723
mods 1SackS_h		0.048	0.000	0.027	0.239	0.000	0.137	-	-
mods 1SackS_m		0.024	0.003	0.003	0.071	0.000	0.289	0.400	0.007
mods 1SCAN		0.049	0.009	0.020	0.108	0.000	0.044	0.181	0.027
mods 1SUPPORT		0.115	0.014	0.029	0.341	0.000	0.165	0.752	0.177
BMCs nmo		0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
BMCs psm		0.000	0.000	0.000	0.000	0.000	0.000	0.270	-
BMCs spb		0.001	0.032	0.000	0.000	0.000	0.000	0.296	-
BMCs ssm		0.001	0.009	0.000	0.000	0.000	0.000	0.000	-
BMCs Othr		0.003	0.000	0.000	0.034	0.000	0.000	0.109	-
BMCs Pla		0.001	0.003	0.001	0.004	0.000	0.000	0.134	-
Non Mods		2.006	0.242	0.672	4.535	0.000	2.324	7.003	1.633
Total Unit Cost		11.742	1.821	3.661	32.427	0.000	16.589	74.078	17.456
FY98 Volumes (in millions)		49,065	1,553	39,297	4,878	1	631	451	26
FY98 Unit Costs		11.902	1.836	3.692	32.869	0.000	16.728	75.088	17.602
Before Reconciliation									

Source: Piggyback factors, reconciliation and escalation factors (pp. 10 and 11) applied to FY96 costs with worksheet adjustments, premium pay, and other reductions (p. 6).

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape and Category with Worksheet Adjustments, Premium Pay Factors, and
Adjustments to Cost Pools Due to Cost Reductions and Other Programs

COST POOL		Letters			Flats			Parcels	
		1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
		Single P	Carr-Rt	NCarr-Rt	Single P	Carr-Rt	NCarr-Rt	Single P	NCarr-Rt
mods	bcs/	401,736	6,590	190,413	990	0	3	337	210
mods	express	1,331	3	471	618	0	4	426	4
mods	fsn/	14,484	93	830	388,171	220	18,644	1,420	2
mods	lsm/	52,982	168	7,268	258	0	13	50	0
mods	manf	11,870	144	1,913	123,550	0	7,896	1,855	1
mods	manl	630,399	1,582	117,958	14,953	-	1,065	1,849	631
mods	manp	1,474	1	389	733	0	164	2,227	0
mods	mecparc	674	1	13	228	0	3	652	1
mods	ocr/	126,131	1,122	27,818	1,032	0	1	331	0
mods	priority	2,936	0	982	2,104	2	0	3,070	53
mods	spbs Oth	3,400	228	451	4,913	-	330	16,644	107
mods	spbsPrio	534	36	1,040	1,778	1	251	7,419	1
mods	BusReply	5,731	0	937	1,395	0	0	377	1
mods	INTL	7,310	-	1,175	471	-	-	592	0
mods	LD15	592,399	3,222	110,403	4,838	-	-	-	-
mods	LD41	8,777	161	5,581	0	-	-	0	-
mods	LD42	646	0	107	264	0	0	3	0
mods	LD43	128,631	1,674	39,207	36,084	229	2,219	8,392	292
mods	LD44	50,053	288	17,645	9,642	2	321	782	1
mods	LD48 Exp	118	1	14	94	1	0	6	0
mods	LD48 Oth	6,328	76	2,231	1,377	5	70	316	6
mods	LD48_Ssv	3,681	72	778	478	-	55	105	0
mods	LD49	66,189	595	58,283	13,839	0	2,127	656	1
mods	LD79	5,939	690	17,230	1,161	249	513	889	6
mods	MAILGRAM	-	-	-	-	-	-	-	-
mods	Registry	1,282	0	6	292	0	2	274	1
mods	REWRAP	6,272	1	170	333	0	14	7	1
mods	1Bulk pr	1,272	637	3,077	812	1	73	60	2
mods	1CancMPP	125,748	134	4,592	24,495	0	882	6,802	462
mods	1EEQMT	11,269	143	3,065	2,928	30	157	1,264	35
mods	1MISC	39,615	420	8,099	11,129	12	509	2,547	52
mods	1OPbulk	29,178	-	8,137	13,458	-	1,708	4,292	27
mods	1OPpref	143,743	3,526	56,685	45,786	-	2,485	44,938	961
mods	1Platfrm	146,797	2,038	48,592	62,973	284	2,917	30,285	983
mods	1POUCHNG	114,295	1,866	39,300	42,774	361	1,172	28,319	488
mods	1SackS_h	12,862	-	6,710	6,324	-	381	1,901	-
mods	1SackS_m	5,916	52	668	1,718	200	738	895	2
mods	1SCAN	14,663	167	5,551	3,206	3	138	496	8
mods	1SUPPORT	40,924	299	9,590	12,086	13	616	2,464	63
BMCs	nmo	0	2	0	1	-	-	0	-
BMCs	psm	-	-	-	-	-	-	580	-
BMCs	spb	213	554	75	2	-	-	773	-
BMCs	ssm	109	112	0	6	-	-	0	-
BMCs	Othr	828	-	-	935	-	-	281	-
BMCs	Pla	145	43	160	88	-	-	274	-
Non Mods		656,068	4,835	206,780	147,432	371	7,961	21,075	532
Total		3,474,953	31,580	1,004,397	985,745	1,983	53,433	195,924	4,936

Source: Premium pay and cost reduction and other programs adjustment ratios for each cost pool (pp. 10 and 11) applied to FY96 Costs with worksharing adjustments (p. 7).

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape by Category with Cost Segment 3 Worksheet Adjustments

COST POOL		Letters			Flats			Parcels	
		1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
		<u>Single P</u>	<u>Carr-Rt</u>	<u>NCarr-Rt</u>	<u>Single P</u>	<u>Carr-Rt</u>	<u>NCarr-Rt</u>	<u>Single P</u>	<u>NCarr-Rt</u>
mods	bcs/	342,047	5,663	163,630	843	0	3	287	181
mods	express	1,305	3	466	606	0	4	417	4
mods	fsm/	13,319	87	770	356,956	205	17,304	1,306	2
mods	lsm/	493,334	1,580	68,308	2,406	1	119	461	1
mods	manf	15,220	187	2,476	158,417	0	10,218	2,379	2
mods	manl	617,818	1,565	116,680	14,655	-	1,053	1,812	625
mods	manp	1,445	1	385	718	0	162	2,183	0
mods	mecparc	660	1	13	223	0	3	639	1
mods	ocr/	118,325	1,062	26,339	968	0	1	310	0
mods	priority	2,877	0	971	2,062	2	0	3,009	52
mods	spbs Oth	2,715	184	364	3,923	-	266	13,290	86
mods	spbsPrio	523	35	1,029	1,742	1	248	7,271	1
mods	BusReply	5,617	0	927	1,367	0	0	369	1
mods	INTL	7,164	-	1,162	462	-	-	581	0
mods	LD15	275,408	1,512	51,804	2,249	-	-	-	-
mods	LD41	8,602	160	5,520	0	-	-	0	-
mods	LD42	634	0	106	259	0	0	3	0
mods	LD43	126,064	1,656	38,782	35,364	227	2,195	8,224	289
mods	LD44	49,054	285	17,454	9,449	2	317	766	1
mods	LD48 Exp	116	1	14	92	1	0	6	0
mods	LD48 Oth	6,202	75	2,207	1,349	5	69	310	6
mods	LD48_Ssv	3,608	71	770	468	-	55	103	0
mods	LD49	66,753	606	59,328	13,957	0	2,165	661	1
mods	LD79	5,820	683	17,044	1,138	246	508	871	6
mods	MAILGRAM	-	-	-	-	-	-	-	-
mods	Registry	1,256	0	6	286	0	2	268	1
mods	REWRAP	6,147	1	168	326	0	13	7	1
mods	1Bulk pr	1,246	630	3,044	795	1	73	59	2
mods	1CancMPP	126,475	136	4,662	24,637	0	895	6,841	469
mods	1EEQMT	11,044	142	3,032	2,869	30	156	1,238	35
mods	1MISC	38,824	416	8,011	10,906	12	503	2,496	52
mods	1OPbulk	32,176	-	9,057	14,841	-	1,901	4,733	30
mods	1OPpref	148,040	3,665	58,924	47,154	-	2,583	46,281	999
mods	1Platfrm	143,867	2,015	48,066	61,716	281	2,885	29,680	972
mods	1POUCHNG	112,014	1,846	38,874	41,920	357	1,160	27,754	482
mods	1SackS_h	12,605	-	6,637	6,198	-	377	1,864	-
mods	1SackS_m	5,798	51	661	1,683	197	730	877	2
mods	1SCAN	14,371	165	5,491	3,142	3	137	486	8
mods	1SUPPORT	40,107	296	9,487	11,845	13	609	2,415	62
BMCs	runo _4/	0	2	0	1	-	-	0	-
BMCs	psm _4/	-	-	-	-	-	-	569	-
BMCs	spb _4/	208	548	74	2	-	-	757	-
BMCs	ssm _4/	107	111	0	6	-	-	0	-
BMCs	Othr _4/	812	-	-	916	-	-	275	-
BMCs	Pla _4/	146	44	163	88	-	-	277	-
Non Mo	_5/	642,975	4,783	204,539	144,490	367	7,875	20,654	526
Total		3,502,850	30,269	977,442	983,496	1,949	54,590	192,791	4,900

Source: Worksharing adjustments (p. 9) applied to FY96 volume variable costs (p. 8).

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
FY96 Mail Processing Volume Variable Costs by Cost Pool

COST POOL	Letters			Flats			Parcels	
	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. NCarr-Rt
mods bcs/	341,122	5,648	163,212	840	0	3	286	180
mods express	1,301	3	465	604	0	4	416	4
mods fsm/	13,283	87	769	355,991	204	17,260	1,302	2
mods lsm/	492,000	1,576	68,134	2,399	1	118	460	1
mods manf	15,179	186	2,469	157,989	0	10,192	2,372	2
mods manl	616,148	1,561	116,382	14,615	-	1,051	1,808	623
mods manp	1,441	1	384	716	0	162	2,177	0
mods mecparc	658	1	13	223	0	3	637	1
mods ocr/	118,005	1,060	26,272	965	0	1	309	0
mods priority	2,870	0	968	2,057	2	0	3,001	52
mods spbs Oth	2,708	184	363	3,912	-	265	13,254	86
mods spbsPrio	522	35	1,026	1,738	1	248	7,251	1
mods BusReply	5,602	0	925	1,364	0	0	368	1
mods INTL	7,145	-	1,159	460	-	-	579	0
mods LD15	274,663	1,508	51,672	2,243	-	-	-	-
mods LD41	8,579	159	5,506	0	-	-	0	-
mods LD42	632	0	106	258	0	0	3	0
mods LD43	125,723	1,652	38,683	35,268	226	2,189	8,202	288
mods LD44	48,921	285	17,409	9,424	2	317	764	1
mods LD48 Exp	116	1	14	92	1	0	6	0
mods LD48 Oth	6,185	75	2,201	1,346	5	69	309	6
mods LD48_Ssv	3,598	71	768	467	-	55	103	0
mods LD49	66,573	604	59,176	13,919	0	2,159	660	1
mods LD79	5,804	681	17,000	1,135	245	506	869	6
mods MAILGRAM	-	-	-	-	-	-	-	-
mods Registry	1,253	0	6	286	0	2	268	1
mods REWRAP	6,131	1	167	325	0	13	7	1
mods 1Bulk pr	1,243	629	3,036	793	1	72	59	2
mods 1CancMPP	126,133	135	4,650	24,570	0	893	6,823	468
mods 1EEQMT	11,014	141	3,024	2,862	30	155	1,235	35
mods 1MISC	38,719	414	7,991	10,877	12	502	2,489	51
mods 1OPbulk	32,089	-	9,034	14,801	-	1,897	4,720	30
mods 1OPpref	147,640	3,656	58,773	47,027	-	2,576	46,156	997
mods 1Platfrm	143,478	2,010	47,943	61,549	280	2,878	29,600	970
mods 1POUCHNG	111,711	1,841	38,775	41,807	356	1,157	27,679	481
mods 1SackS_h	12,571	-	6,620	6,182	-	376	1,859	-
mods 1SackS_m	5,783	51	659	1,679	197	728	875	2
mods 1SCAN	14,332	165	5,477	3,133	3	136	484	8
mods 1SUPPORT	39,999	295	9,462	11,813	13	608	2,408	62
BMCs nmo	0	2	0	1	-	-	0	-
BMCs psm	-	-	-	-	-	-	553	-
BMCs spb	203	533	72	2	-	-	736	-
BMCs ssm	104	108	0	6	-	-	0	-
BMCs Othr	789	-	-	891	-	-	268	-
BMCs Pla	142	43	158	86	-	-	269	-
Non Mods	632,718	4,707	201,306	142,185	361	7,750	20,325	518
Total	3,484,829	30,111	972,230	978,897	1,939	54,346	191,949	4,880

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. II-1, III-1, and IV-1.

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Cost Segment 3 Worksheet Adjustments*

BMC Mail Processing Labor Costs

Line No.	(1) BMC Costs (excl clocking in & out)	(2) BMC clocking in & out	(3) BMC Costs Total	(4) BMC ratio Ratio
1	616,383	15,816	632,199	1.025659371
Source:	page 2, C3	page 2, C4	C1 + C2	C3/C1

Non-MODS Mail Processing Costs

	(1) Non-MODS Costs (excl clocking in & out)	(2) Non-MODS clocking in & out	(3) Non-MODS Total Costs	(4) Non-MODS Costs Ratio
2	2,324,491	31,295	2,355,786	1.013463162
Source:	page 2, C5	page 2, C6	C1 + C2	C3/C1

Lump Sum Adjustment for Mail Processing Labor Costs

	(1) Total Labor Cost w/o Lump Sum	(2) Lump Sum	(3) Total	(4) Ratio
3	13,213,586	33,826	13,247,412	1.002559941
Source:	page 4, C7	page 4, C8	C1 + C2	C3/C1

Normal Feature & Special Delivery Adjustment

First-Class Mail Categories:		(1)	(2)	(3)	(4)
		Before Adj.	Adjustmt.	Total	Ratio
4	Letters and Sealed Parcels	4,678,429	705	4,679,134	1.000150692
5	Presort Letters and Sealed Parcels	1,069,149	1	1,069,150	1.000000935
6	Presort Cards	35,957		35,957	1
Source:		page 3, C2 times C4L3 of this page	page 3, C4 + C10	C1 + C2	C3/C1

* All page references are to Witness Alexandrovich, USPS-T-5, WP B-3, W/S 3.1.1.

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-1

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Adjustment Ratios for Premium Pay, Mail Processing Piggyback,
Roll Forward, Reconciliation, and Shape/Presort Mix

	<u>Letters</u>		
	<u>1st Cl.</u>	<u>1st Pr.</u>	<u>1st Pr.</u>
	<u>Single P</u>	<u>Carr-Rt</u>	<u>NCarr-Rt</u>
Unadjusted Base Year	4,679,134		1,069,150
With Premium Pay	4,774,417		1,080,864
Prem Pay Adjustment	1.020363383	1.010956367	1.010956367
TY98 Mail Processing Direct Labor Cost	4,899,428		983,046
Mail Processing Piggyback Factor	1.56702		1.6035
TY98 Cost * Piggyback	7,677,502		1,576,315
Spreadsheet Pre-Test Year Costs	4,656,621	33,563	1,096,329
Rollforward Ratio to Test Year	1.052142378	0.896671341	0.896671341
TY98 Unit Costs Reconciliation Target	7,677,502		1,576,315
TY98 Unit Costs Before Reconciliation	7,782,179	28,512	1,560,974
TY98 Reconciliation Ratio	0.98655		0.99171

Shape/Presort Adjustment to Reflect the Mail Mix Adjustment

		<u>Percent of</u>		<u>Percent of</u>	<u>Shape/</u>
		<u>Costs from</u>	<u>Pre-Test</u>	<u>Costs from</u>	<u>Presort</u>
		<u>Mail Mix</u>	<u>Year Costs</u>	<u>Pre-Test</u>	<u>Adjustment</u>
				<u>Year</u>	<u>Ratios</u>
Non-Carrier Route	Letter	91.00%	1,004,397	91.61%	0.993
	Flat	6.98%	53,433	4.87%	1.432
	Parcel	0.28%	4,936	0.45%	0.632
Carrier Route	Letter	1.74%	31,580	2.88%	0.604
	Flat		1,983	0.18%	0.000
All	Total	100.00%	1,096,329	100.00%	

Source:

TY98 Mail Processing Direct Labor Cost: Summary of First-Class Workshared Letter Mail Processing Costs.

Other Data: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-3.

First-Class Workshared Mail Processing Unit Cost Methodology
Historical Changes in Unit Cost FY94-FY96
Adjustment Ratio for Cost Reductions & Other Programs and Piggyback Factors by Cost Pool

<u>COST POOL</u>		<u>Cost Reductions & Other Programs</u>	<u>Escalated Volume Variable Costs</u>	<u>Adjustment Ratio</u>	<u>Mail Processing Operation Specific Piggyback Factors</u>
mods	bcs/	106,016	701,786	1.151066261	2.0366
mods	express			1	1.3314
mods	fsm/	48,479	737,374	1.065745839	1.5347
mods	lsm/	(645,753)	721,715	0.105253011	2.2404
mods	manf	(114,519)	485,950	0.764339432	1.4412
mods	manl			1	1.3716
mods	manp			1	1.5361
mods	mecparc			1	1.8078
mods	ocr/	8,584	192,065	1.044694418	2.0954
mods	priority			1	1.4326
mods	spbs Oth	20,237	89,010	1.227361215	1.7085
mods	spbsPrio			1	1.6129
mods	BusReply			1	1.4770
mods	INTL			1	1.6572
mods	LD15	463,212	418,037	2.108064075	1.4499
mods	LD41			1	2.0535
mods	LD42			1	1.7317
mods	LD43			1	1.4347
mods	LD44			1	1.3659
mods	LD48 Exp			1	1.3135
mods	LD48 Oth			1	1.3773
mods	LD48_SSv			1	1.3629
mods	LD49	(7,070)	250,265	0.971749985	1.4954
mods	LD79			1	1.4356
mods	MAILGRAM			1	1.3724
mods	Registry			1	1.3130
mods	REWRAP			1	1.4314
mods	1Bulk pr			1	1.5609
mods	1CancMPP	(5,248)	205,074	0.974411667	2.1420
mods	1EEQMT			1	1.5490
mods	1MISC			1	1.4054
mods	1OPbulk	(28,317)	254,460	0.888718035	1.6004
mods	1OPpref	(28,317)	584,956	0.951591551	1.6095
mods	1Platfrm			1	1.8438
mods	1POUCHNG			1	1.6626
mods	1SackS_h			1	1.7763
mods	1SackS_m			1	1.9417
mods	1SCAN			1	1.5869
mods	1SUPPORT			1	1.3267
BMCs	nmo			1	1.6468
BMCs	psm			1	2.0267
BMCs	spb			1	1.6670
BMCs	ssm			1	2.4141
BMCs	Othr			1	1.6866
BMCs	Pla	(2,983)	104,589	0.971478864	2.1252
Non Mods				1	1.4453
Total		(185,677)	4,745,281		

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-2.

ABA/EEI/NAPM-T-1
Technical Appendix C

TECHNICAL APPENDIX C

Technical Appendix C.1

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Technical Appendix C.2

Cost Coverage Model

First-Class Workshared Rates at Formal Proposal with Standard (A) Commercial Cost Coverage Increase

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Technical Appendix C.1

TECHNICAL APPENDIX C.1

Cost Coverage Model First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Cost Coverage Model

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Cost Coverage			Alternate Proposal Compared to Proposed R97-1
	Proposed R97-1	Alternate Proposal	Difference
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	287.06%	3.74%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	<i>199.47%</i>	<i>200.98%</i>	<i>1.51%</i>
<i>Total Periodical</i>	<i>106.10%</i>	<i>106.10%</i>	<i>0.00%</i>
Standard Single Piece			
Standard Regular	154.52%	154.52%	0.00%
Standard Regular Enhanced Carrier Route	228.30%	228.30%	0.00%
Standard Regular and Enhanced Carrier Route	174.17%	174.17%	0.00%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	<i>167.04%</i>	<i>167.04%</i>	<i>0.00%</i>
<i>Total Standard B</i>	<i>121.85%</i>	<i>121.85%</i>	<i>0.00%</i>
Priority Mail, Express Mail and Mailgrams	194.17%	194.17%	0.00%
Postal Penalty and Free-for-the Blind	0.00%	0.00%	0.00%
International Mail	136.30%	136.30%	0.00%
Special Services	159.52%	159.52%	0.00%
Attributable Costs	178.42%	178.92%	0.50%
Total	100.06%	99.81%	-0.25%

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Key Rate per Piece (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.310	0.305	-0.005	-1.6%
Automated Basic Letters	0.275	0.262	-0.013	-4.7%
Automated Basic Flats	0.300	0.290	-0.010	-3.3%
Automated 3-Digit Letters	0.265	0.255	-0.010	-3.8%
Automated 5-Digit Letters	0.249	0.241	-0.008	-3.2%
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%
Automated Carrier-Route Letters	0.246	0.240	-0.006	-2.4%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	—
Automated Basic Letters	0.000	0.000	0.000	—
Automated Basic Flats	0.000	0.000	0.000	—
Automated 3-Digit Letters	0.000	0.000	0.000	—
Automated 5-Digit Letters	0.000	0.000	0.000	—
Automated 3/5-Digit Flats	0.000	0.000	0.000	—
Automated Carrier-Route Letters	0.000	0.000	0.000	—
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%
First-Class Stamped Cards	0.210	0.210	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%
Automated Basic Cards	0.176	0.166	-0.010	-5.7%
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%
Standard Single Piece	0.330	0.330	0.000	0.0%
Standard Regular				
Nonautomated Basic Letters	0.247	0.247	0.000	0.0%
Nonautomated Basic Nonletters	0.300	0.300	0.000	0.0%
Nonautomated Presort Letters	0.209	0.209	0.000	0.0%
Nonautomated Presort Nonletters	0.240	0.240	0.000	0.0%
Automated Basic Letters	0.189	0.189	0.000	0.0%
Automated Basic Flats	0.243	0.243	0.000	0.0%
Automated 3-Digit Letters	0.178	0.178	0.000	0.0%
Automated 5-Digit Letters	0.160	0.160	0.000	0.0%
Automated 3/5-Digit Flats	0.207	0.207	0.000	0.0%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.157	0.157	0.000	0.0%
Basic Letters	0.164	0.164	0.000	0.0%
Basic Nonletters	0.164	0.164	0.000	0.0%
High-Density Letters	0.143	0.143	0.000	0.0%
High-Density Nonletters	0.153	0.153	0.000	0.0%
Saturation Letters	0.134	0.134	0.000	0.0%
Saturation Nonletters	0.141	0.141	0.000	0.0%

Cost Coverage Model

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Key Rate per Piece (Dollars per Piece) continued				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%

Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts Technical Appendix C.1
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Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class Letters - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	—
Automated Basic Letters	0.000	0.000	0.000	—
Automated 3-Digit Letters	0.000	0.000	0.000	—
Automated 5-Digit Letters	0.000	0.000	0.000	—
Automated Carrier-Route Letters	0.000	0.000	0.000	—
First-Class Workshared				
Second Ounce	0.230	0.230	0.000	0.0%
Third Ounce	0.230	0.230	0.000	0.0%
Above Third Ounce	0.230	0.230	0.000	0.0%
Standard Regular Addition for Pound Rate		0.000	0.000	—
Standard Regular Additional Ounces				
Second Ounce	0.000	0.000	0.000	—
Third Ounce	0.000	0.000	0.000	—
Above Third Ounce	0.041	0.041	0.000	—
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	—
Standard Enhanced Carrier Route				
Second Ounce	0.000	0.000	0.000	—
Third Ounce	0.000	0.000	0.000	—
Above Third Ounce	0.033	0.033	0.000	—

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Revenue Requirement (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Total Revenues	61,651.8	61,086.7	-565.125	-0.9%
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,204.0	-412.241	-0.7%
Net Surplus (Deficiency)	35.6	(117.2)	(152.9)	-429.0%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1		
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	53,598.402	51,770.960	-1,827.442	-3.4%
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,745.720	-591.100	-3.4%
First-Class PRM and QBRM Letters	919.400	887.958	-31.442	-3.4%
First-Class Letters and Flats - Workshared	41,033.182	43,226.340	2,193.158	5.3%
Nonautomated Presort	4,855.407	4,871.210	15.803	0.3%
Automated Basic Letters	4,308.327	4,499.318	190.991	4.4%
Automated Basic Flats	49.024	81.421	32.397	66.1%
Automated 3-Digit Letters	20,879.382	22,021.621	1,142.239	5.5%
Automated 5-Digit Letters	9,488.132	9,860.521	372.389	3.9%
Automated 3/5-Digit Flats	235.507	250.010	14.503	6.2%
Automated Carrier-Route Letters	1,217.403	1,642.239	424.836	34.9%
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,469.772	74.571	5.3%
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	401.717	20.382	5.3%
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	304.015	15.425	5.3%
First-Class Stamped Cards	583.005	583.005	0.000	0.0%
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%
Automated Basic Cards	340.549	316.386	-24.163	-7.1%
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%
Total First Class	101,074.031	101,474.189	400.158	0.4%
Total Periodical	10,257.973	10,257.973	0.000	0.0%
Standard Single Piece				
Standard Regular	37,627.554	37,627.554	0.000	0.0%
Nonautomated Basic Letters	2,373.994	2,373.994	0.000	0.0%
Nonautomated Basic Nonletters	1,832.877	1,832.877	0.000	0.0%
Nonautomated Presort Letters	2,902.289	2,902.289	0.000	0.0%
Nonautomated Presort Nonletters	2,075.756	2,075.756	0.000	0.0%
Automated Basic Letters	3,136.543	3,136.543	0.000	0.0%
Automated Basic Flats	259.382	259.382	0.000	0.0%
Automated 3-Digit Letters	9,535.365	9,535.365	0.000	0.0%
Automated 5-Digit Letters	6,358.646	6,358.646	0.000	0.0%
Automated 3/5-Digit Flats	9,152.702	9,152.702	0.000	0.0%
Standard Regular - Second Ounce	18,908.097	18,908.097	0.000	0.0%
Standard Regular - Third Ounce	11,086.356	11,086.356	0.000	0.0%
Standard Regular - Ounces Above Third	37,206.538	37,206.538	0.000	0.0%
Standard Regular Enhanced Carrier Route	28,686.182	28,686.182	0.000	0.0%
Automated	2,059.662	2,059.662	0.000	0.0%
Basic Letters	3,173.765	3,173.765	0.000	0.0%
Basic Nonletters	10,660.705	10,660.705	0.000	0.0%
High-Density Letters	392.986	392.986	0.000	0.0%
High-Density Nonletters	1,154.078	1,154.078	0.000	0.0%
Saturation Letters	3,086.387	3,086.387	0.000	0.0%
Saturation Nonletters	8,158.599	8,158.599	0.000	0.0%
Standard Enhanced Carrier Route - Second Ounce	18,077.614	18,077.614	0.000	0.0%
Standard Enhanced Carrier Route - Third Ounce	12,169.966	12,169.966	0.000	0.0%
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	37,051.988	0.000	0.0%
Standard Regular and Enhanced Carrier Route	66,313.736	66,313.736	0.000	0.0%
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%
Total Standard A	79,435.987	79,435.987	0.000	0.0%

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Volume (Million Pieces) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
Total Domestic Mail	193,380.733	193,780.891	400.158	0.2%
International Mail	1,006.682	1,006.682	0.000	0.0%
Total Domestic and International Mail	194,387.415	194,787.573	400.158	0.2%
Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).				

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Revenue (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,137.619	-604.934	-3.4%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,851.516	-135.953	-3.4%
First-Class PRM and QBRM Letters	275.820	266.387	-9.433	-3.4%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,670.552	204.544	1.8%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	11,152.938	179.157	1.6%
Nonautomated Presort	1,508.028	1,488.534	-19.494	-1.3%
Automated Basic Letters	1,184.790	1,178.821	-5.969	-0.5%
Automated Basic Flats	19.959	32.044	12.085	60.5%
Automated 3-Digit Letters	5,533.036	5,615.513	82.477	1.5%
Automated 5-Digit Letters	2,362.545	2,376.386	13.841	0.6%
Automated 3/5-Digit Flats	65.942	67.503	1.561	2.4%
Automated Carrier-Route Letters	299.481	394.137	94.656	31.6%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	338.048	17.151	5.3%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	92.395	4.688	5.3%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	69.923	3.548	5.3%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	34,138.621	-565.125	-1.6%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,022.045	0.000	0.0%
Nonautomated Basic Letters	586.377	586.377	0.000	0.0%
Nonautomated Basic Nonletters	431.007	431.007	0.000	0.0%
Nonautomated Presort Letters	581.072	581.072	0.000	0.0%
Nonautomated Presort Nonletters	336.537	336.537	0.000	0.0%
Automated Basic Letters	592.807	592.807	0.000	0.0%
Automated Basic Flats	46.060	46.060	0.000	0.0%
Automated 3-Digit Letters	1,624.239	1,624.239	0.000	0.0%
Automated 5-Digit Letters	968.666	968.666	0.000	0.0%
Automated 3/5-Digit Flats	1,193.906	1,193.906	0.000	0.0%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third	1,511.516	1,511.516	0.000	0.0%
Fees, Residual Shape, and Adjustments	149.859	149.859	0.000	0.0%
Standard Regular Enhanced Carrier Route	4,304.005	4,304.005	0.000	0.0%
Automated	323.367	323.367	0.000	0.0%
Basic Letters	520.497	520.497	0.000	0.0%
Basic Nonletters	1,229.214	1,229.214	0.000	0.0%
High-Density Letters	42.999	42.999	0.000	0.0%
High-Density Nonletters	76.576	76.576	0.000	0.0%
Saturation Letters	309.924	309.924	0.000	0.0%
Saturation Nonletters	532.594	532.594	0.000	0.0%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,227.347	0.000	0.0%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,326.050	0.000	0.0%

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

Technical Appendix C.1

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Revenue (Million Dollars) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
<i>Total Standard A</i>	13,878.891	13,878.891	0.000	0.0%
<i>Total Standard B</i>	1,712.281	1,712.281	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	5,198.586	5,198.586	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	—
<i>Total Domestic Mail</i>	57,619.284	57,054.159	-565.125	-1.0%
<i>International Mail</i>	1,643.844	1,643.844	0.000	0.0%
<i>Special Services</i>	2,049.606	2,049.606	0.000	0.0%
<i>Other Income</i>	217.242	217.242	0.000	0.0%
<i>Attributable Revenue</i>	61,529.976	60,964.851	-565.125	-0.9%
<i>Continuing Appropriations</i>	67.498	67.498	0.000	0.0%
<i>Investment Income</i>	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,086.720	-565.125	-0.9%

Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).

Cost Coverage Model
First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Costs (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece	12,758.664	12,323.634	-435.030	-3.4%
First-Class Letters and Flats - Presort	4,047.084	4,065.590	18.506	0.5%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
Total First Class	17,398.132	16,985.891	-412.241	-2.4%
Total Periodical	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,191.674	0.000	0.0%
Standard Regular Enhanced Carrier Route	1,885.248	1,885.248	0.000	0.0%
Standard Regular and Enhanced Carrier Route	7,076.922	7,076.922	0.000	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
Total Standard A	8,308.850	8,308.850	0.000	0.0%
Total Standard B	1,405.285	1,405.285	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	2,677.289	2,677.289	0.000	0.0%
Postal Penalty and Free-for-the Blind	31.757	31.757	0.000	0.0%
Total Domestic Mail	31,824.787	31,412.546	-412.241	-1.3%
International Mail	1,206.030	1,206.030	0.000	0.0%
Special Services	1,284.854	1,284.854	0.000	0.0%
Other Variable Costs	170.322	170.322	0.000	0.0%
Attributable Costs	34,485.993	34,073.752	-412.241	-1.2%
Total Other Costs	26,683.278	26,683.278	0.000	0.0%
Prior Years Loss Recovery	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,203.963	-412.241	-0.7%

	Volume Variable Cost per Piece (Dollars per Piece)	
	Proposed R97-1	Alternate Proposal
First-Class Letters and Flats - Single Piece	0.2340	0.2340
First-Class Letters and Flats - Presort	0.0986	0.0941
First-Class Cards - Single Piece	0.1413	0.1413
First-Class Cards - Private Presort	0.0650	0.0650
Standard Regular	0.1380	0.1380
Standard Regular Enhanced Carrier Rout	0.0657	0.0657

Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).

Note: In the alternate proposal, First-Class workshared BY98 volume variable costs as calculated by Patelunas may be adjusted to continue the historical CRA cost decline in mail processing and to include forwarding cost savings. In this particular scenario, the adjustments are:

Mail Processing Cost	-0.00196
Forwarding Cost	-0.00262

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts Technical Appendix C.1
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Discounts (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.025	0.005	25.0%
Automated Basic Letters	0.055	0.068	0.013	23.6%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.075	0.010	15.4%
Automated 5-Digit Letters	0.081	0.089	0.008	9.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.090	0.006	7.1%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.000	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.247	0.000	0.0%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.038	0.000	0.0%
Automated Basic Letters	0.058	0.058	0.000	0.0%
Automated 3-Digit Letters	0.069	0.069	0.000	0.0%
Automated 5-Digit Letters	0.087	0.087	0.000	0.0%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.300	0.000	0.0%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.060	0.000	0.0%
Automated Basic Flats	0.057	0.057	0.000	0.0%
Automated 3/5-Digit Flats	0.093	0.093	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.164	0.000	0.0%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.164	0.000	0.0%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%
Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.				

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Revenue per Piece (Dollars per Piece)			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3056	-0.005
Automated Basic Letters	0.2750	0.2620	-0.013
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2550	-0.010
Automated 5-Digit Letters	0.2490	0.2410	-0.008
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2400	-0.006
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2470	0.000
Nonautomated Basic Nonletters	0.2352	0.2352	0.000
Nonautomated Presort Letters	0.2002	0.2002	0.000
Nonautomated Presort Nonletters	0.1621	0.1621	0.000
Automated Basic Letters	0.1890	0.1890	0.000
Automated Basic Flats	0.1776	0.1776	0.000
Automated 3-Digit Letters	0.1703	0.1703	0.000
Automated 5-Digit Letters	0.1523	0.1523	0.000
Automated 3/5-Digit Flats	0.1304	0.1304	0.000
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1570	0.000
Basic Letters	0.1640	0.1640	0.000
Basic Nonletters	0.1153	0.1153	0.000
High-Density Letters	0.1094	0.1094	0.000
High-Density Nonletters	0.0664	0.0664	0.000
Saturation Letters	0.1004	0.1004	0.000
Saturation Nonletters	0.0653	0.0653	0.000
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000

Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%

Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).

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Fixed Weight Price Indices					
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.3009	-0.0054
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3431	-0.0029
Automated Basic Letters	656.213	0.3085	0.3159	0.3036	-0.0123
Automated Basic Flats	10.180	0.7693	0.7236	0.7052	-0.0184
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2832	-0.0072
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2840	-0.0026
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7182	-0.0239
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3201	-0.0008
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2160	0.0000
Standard Regular Flats		0.2880	0.3043	0.3043	0.0000
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2459	0.0000
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3887	0.0000
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2196	0.0000
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3615	0.0000
Automated Basic Letters	528.261	0.2105	0.2069	0.2069	0.0000
Automated Basic Flats	52.064	0.3366	0.3147	0.3147	0.0000
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2193	0.0000
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.1977	0.0000
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2700	0.0000
Standard ECR Letters		0.1332	0.1423	0.1423	0.0000
Standard ECR Flats		0.1562	0.1551	0.1551	0.0000
Automated	302.099	0.1363	0.1458	0.1458	0.0000
Basic Letters	1,866.041	0.1377	0.1509	0.1509	0.0000
Basic Nonletters	2,341.886	0.1746	0.1734	0.1734	0.0000
High-Density Letters	61.473	0.1292	0.1263	0.1263	0.0000
High-Density Nonletters	248.190	0.1587	0.1579	0.1579	0.0000
Saturation Letters	654.207	0.1193	0.1176	0.1176	0.0000
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1335	0.0000
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0742	0.0142

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Fixed Weight Price Indices continued					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3361	-0.0053
Automated Basic Letters			0.2823	0.2695	-0.0128
Automated Basic Flats			0.7005	0.6780	-0.0225
Automated 3-Digit Letters			0.2687	0.2590	-0.0097
Automated 5-Digit Letters			0.2555	0.2477	-0.0078
Automated 3/5-Digit Flats			0.7302	0.7052	-0.0250
Automated Carrier-Route Letters			0.2559	0.2499	-0.0060
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2459	0.0000
Nonautomated Basic Nonletters			0.3887	0.3887	0.0000
Nonautomated Presort Letters			0.2017	0.2017	0.0000
Nonautomated Presort Nonletters			0.3253	0.3253	0.0000
Automated Basic Letters			0.1878	0.1878	0.0000
Automated Basic Flats			0.2978	0.2978	0.0000
Automated 3-Digit Letters			0.1721	0.1721	0.0000
Automated 5-Digit Letters			0.1517	0.1517	0.0000
Automated 3/5-Digit Flats			0.2304	0.2304	0.0000
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1458	0.0000
Basic Letters			0.1509	0.1509	0.0000
Basic Nonletters			0.1734	0.1734	0.0000
High-Density Letters			0.1263	0.1263	0.0000
High-Density Nonletters			0.1579	0.1579	0.0000
Saturation Letters			0.1176	0.1176	0.0000
Saturation Nonletters			0.1335	0.1335	0.0000

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Fixed Weight Price Indices continued					
	Base Period	Base Period		Alternate Proposal	
	Volumes	Weights	Proposed R97-1	Alternate Proposal	Difference
User Cost					
First-Class Letters Single Piece			0.0000	0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.0046	0.0070	0.0024
Automated Basic Letters			0.0336	0.0341	0.0005
Automated Basic Flats			0.0231	0.0272	0.0041
Automated 3-Digit Letters			0.0216	0.0242	0.0025
Automated 5-Digit Letters			0.0311	0.0363	0.0052
Automated 3/5-Digit Flats			0.0119	0.0130	0.0011
Automated Carrier-Route Letters			0.0650	0.0702	0.0052
First-Class Stamped Cards			0.0000	0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000	0.0000
Nonautomated Presort			0.0072	0.0140	0.0068
Automated Basic			0.0041	0.0066	0.0025
Automated 3-Digit			0.0217	0.0294	0.0078
Automated 5-Digit			0.0240	0.0299	0.0059
Automated Carrier-Route			0.0359	0.0489	0.0130
Standard Single Piece			0.0000	0.0000	0.0000
Standard Regular					
Nonautomated Basic Letters			0.0000	0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0179	0.0000
Nonautomated Presort Nonletters			0.0361	0.0361	0.0000
Automated Basic Letters			0.0191	0.0191	0.0000
Automated Basic Flats			0.0169	0.0169	0.0000
Automated 3-Digit Letters			0.0472	0.0472	0.0000
Automated 5-Digit Letters			0.0460	0.0460	0.0000
Automated 3/5-Digit Flats			0.0397	0.0397	0.0000
Standard Regular Enhanced Carrier Route					
Automated			0.0000	0.0000	0.0000
Basic Letters			0.0000	0.0000	0.0000
Basic Nonletters			0.0000	0.0000	0.0000
High-Density Letters			0.0000	0.0000	0.0000
High-Density Nonletters			0.0000	0.0000	0.0000
Saturation Letters			0.0000	0.0000	0.0000
Saturation Nonletters			0.0000	0.0000	0.0000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Key Rate to Revenue per Piece Adjustment					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Key Rate to Fixed Weight Index Adjustment			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

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Volume and Share Adjustments				
	Volume Adjustment	Test Year 1998 After Rates Tolley Volume Forecast	Proposed R97- 1 Unadjusted Volume	Alternate Proposal Unadjusted Volume
First-Class Letters Single Piece	0.47%	54,413.387	54,157.511	52,305.423
First-Class Letters Workshared	2.67%	41,033.182	39,967.926	42,104.148
First-Class Single Piece Cards	-1.04%	2,476.656	2,502.698	2,502.698
First-Class Presort Cards	3.58%	2,463.386	2,378.177	2,441.782
Standard Single Piece	1.21%	161.574	159.641	159.641
Standard Regular Letters	4.63%	24,306.837	23,231.926	23,231.926
Standard Regular Flats	2.57%	13,320.717	12,986.521	12,986.521
Standard ECR Letters	2.44%	8,712.800	8,505.278	8,505.278
Standard ECR Flats	5.33%	19,973.382	18,962.447	18,962.447
	Share Adjustment	Test Year 1998 After Rates Tolley Share Forecast	Proposed R97- 1 Unadjusted Share	Alternate Proposal Unadjusted Share
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	11.44%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	49.88%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.14%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	3.72%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	11.25%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	15.47%
Automated Basic Letters	4.31%	12.90%	12.37%	12.37%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	36.53%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.76%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.78%
Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).				
Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.				

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First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Volume Forecasts				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
First-Class Letters and Flats - Single Piece				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
Cross Elasticities - Sum				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999102
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.964485
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
Cross Volume Effects Lagged Four Quarters				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
Declining Worksharing User Costs				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
First-Class Letters Workshared				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.010561
Cross Elasticities - Sum				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.998347
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.050168
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
Declining Worksharing User Costs				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
First-Class Private Single Piece Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

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Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
First-Class Presort Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209,508	2,209,508	2,209,508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
Standard Single Piece				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
Standard Regular				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.018219
Flats		0.260348	0.992752	0.992752
Cross Elasticities - Sum				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

Cost Coverage Model

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Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.982163
Flats		0.141174	1.026017	1.026017
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
Personal Consumption Expenditures	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Share Forecasts			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Nonautomated Presort</u>			
Unadjusted Share	15.57%	11.79%	11.44%
Share Adjusted for TYAR		11.83%	11.48%
Share Adjusted to Sum to Unity		11.83%	11.27%
Discount (Dollars per Piece)	0.025	0.020	0.025
Mu	0.0709	0.0765	0.0826
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0021
Average User Cost		0.0046	0.0070
<u>First-Class Automated Basic Letters</u>			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.60%
Share Adjusted to Sum to Unity		10.50%	10.41%
Discount (Dollars per Piece)	0.059	0.055	0.068
Mu	0.0311	0.0339	0.0341
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0035
Average User Cost		0.0336	0.0341
<u>First-Class Automated Basic Flats</u>			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.19%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
<u>First-Class Automated 3-Digit Letters</u>			
Unadjusted Share	48.30%	48.90%	49.88%
Share Adjusted for TYAR		50.88%	51.90%
Share Adjusted to Sum to Unity		50.88%	50.94%
Discount (Dollars per Piece)	0.066	0.065	0.075
Mu	0.0258	0.0214	0.0233
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0253
Average User Cost		0.0216	0.0242
<u>First-Class Automated 5-Digit Letters</u>			
Unadjusted Share	21.89%	22.02%	22.14%
Share Adjusted for TYAR		23.12%	23.24%
Share Adjusted to Sum to Unity		23.12%	22.81%
Discount (Dollars per Piece)	0.082	0.081	0.089
Mu	0.0352	0.0316	0.0370
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0117
Average User Cost		0.0311	0.0363
<u>First-Class Automated 3/5-Digit Flats</u>			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.58%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

Cost Coverage Model

First-Class Workshared Rates at Corrected Cost-Based Calculation of Discounts

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Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Automated Carrier-Route Letters</u>			
Unadjusted Share	3.37%	2.85%	3.72%
Share Adjusted for TYAR		2.97%	3.87%
Share Adjusted to Sum to Unity		2.97%	3.80%
Discount (Dollars per Piece)	0.090	0.084	0.090
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0007
Average User Cost		0.0650	0.0702
<u>First-Class Nonautomated Presort Cards</u>			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
<u>First-Class Automated Basic Cards</u>			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
<u>First-Class Automated 3-Digit Cards</u>			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
<u>First-Class Automated 5-Digit Cards</u>			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
<u>First-Class Automated Carrier-Route Cards</u>			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

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Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
Standard Regular Nonautomated Presort Letters			
Unadjusted Share	15.17%	11.25%	11.25%
Share Adjusted for TYAR		11.94%	11.94%
Discount (Dollars per Piece)	0.047	0.038	0.038
Mu	0.1119	0.1060	0.1060
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0023
Average User Cost		0.0179	0.0179
Standard Regular Nonautomated Presort Nonletters			
Unadjusted Share	19.86%	15.47%	15.47%
Share Adjusted for TYAR		15.58%	15.58%
Discount (Dollars per Piece)	0.081	0.060	0.060
Mu	0.1330	0.1190	0.1190
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0037
Average User Cost		0.0361	0.0361
Standard Regular Automated Basic Letters			
Unadjusted Share	14.85%	12.37%	12.37%
Share Adjusted for TYAR		12.90%	12.90%
Discount (Dollars per Piece)	0.073	0.058	0.058
Mu	0.0197	0.0190	0.0190
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0048
Average User Cost		0.0191	0.0191
Standard Regular Automated Basic Flats			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.95%
Discount (Dollars per Piece)	0.029	0.057	0.057
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0008
Average User Cost		0.0169	0.0169
Standard Regular Automated 3-Digit Letters			
Unadjusted Share	46.54%	36.53%	36.53%
Share Adjusted for TYAR		39.23%	39.23%
Discount (Dollars per Piece)	0.081	0.069	0.069
Mu	0.0468	0.0492	0.0492
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0080
Average User Cost		0.0472	0.0472
Standard Regular Automated 5-Digit Letters			
Unadjusted Share	14.29%	26.76%	26.76%
Share Adjusted for TYAR		26.16%	26.16%
Discount (Dollars per Piece)	0.101	0.087	0.087
Mu	0.0566	0.0462	0.0462
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0110
Average User Cost		0.0460	0.0460
Standard Regular Automated 3/5-Digit Flats			
Unadjusted Share	68.84%	68.78%	68.78%
Share Adjusted for TYAR		68.71%	68.71%
Discount (Dollars per Piece)	0.117	0.093	0.093
Mu	0.0422	0.0397	0.0397
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0367
Average User Cost		0.0397	0.0397

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Share Forecasts continued			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>			
Standard Regular ECR Automated		23.64%	23.64%
Standard Regular ECR Automated Basic Letters		36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters		53.37%	53.37%
Standard Regular ECR High Density Letters		4.51%	4.51%
Standard Regular ECR High-Density Nonletters		5.78%	5.78%
Standard Regular ECR Saturation Letters		35.42%	35.42%
Standard Regular ECR Saturation Nonletters		40.85%	40.85%
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7			

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TECHNICAL APPENDIX C.2

Cost Coverage Model First-Class Workshared Rates at Formal Proposal with Standard (A) Commercial Cost Coverage Increase

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Cost Coverage			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	275.61%	-7.71%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	199.47%	198.46%	-1.00%
<i>Total Periodical</i>	106.10%	106.10%	0.00%
Standard Single Piece			
Standard Regular	154.52%	163.61%	9.09%
Standard Regular Enhanced Carrier Route	228.30%	240.87%	12.57%
Standard Regular and Enhanced Carrier Route	174.17%	183.81%	9.64%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	167.04%	175.12%	8.09%
<i>Total Standard B</i>	121.85%	121.85%	0.00%
<i>Priority Mail, Express Mail and Mailgrams</i>	194.17%	194.17%	0.00%
<i>Postal Penalty and Free-for-the Blind</i>	0.00%	0.00%	0.00%
<i>International Mail</i>	136.30%	136.30%	0.00%
<i>Special Services</i>	159.52%	159.52%	0.00%
<i>Attributable Costs</i>	178.42%	179.66%	1.24%
Total	100.06%	100.09%	0.03%

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

ABA/EEI/NAPM-T-1 ¹²⁵⁷²
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Key Rate per Piece (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%
First-Class Letters and Flats - Workshared per Piece Rate				
Nonautomated Presort	0.310	0.300	-0.010	-3.2%
Automated Basic Letters	0.275	0.261	-0.014	-5.1%
Automated Basic Flats	0.300	0.290	-0.010	-3.3%
Automated 3-Digit Letters	0.265	0.244	-0.021	-7.9%
Automated 5-Digit Letters	0.249	0.228	-0.021	-8.4%
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%
Automated Carrier-Route Letters	0.246	0.225	-0.021	-8.5%
First-Class Letters and Flats - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	—
Automated Basic Letters	0.000	0.000	0.000	—
Automated Basic Flats	0.000	0.000	0.000	—
Automated 3-Digit Letters	0.000	0.000	0.000	—
Automated 5-Digit Letters	0.000	0.000	0.000	—
Automated 3/5-Digit Flats	0.000	0.000	0.000	—
Automated Carrier-Route Letters	0.000	0.000	0.000	—
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.230	0.000	0.0%
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%
First-Class Stamped Cards	0.210	0.210	0.000	0.0%
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%
First-Class Private Cards				
Single Piece Cards	0.210	0.210	0.000	0.0%
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%
Automated Basic Cards	0.176	0.166	-0.010	-5.7%
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%
Standard Single Piece	0.330	0.330	0.000	0.0%
Standard Regular				
Nonautomated Basic Letters	0.247	0.247	0.000	0.0%
Nonautomated Basic Nonletters	0.300	0.300	0.000	0.0%
Nonautomated Presort Letters	0.209	0.221	0.012	5.7%
Nonautomated Presort Nonletters	0.240	0.252	0.012	5.0%
Automated Basic Letters	0.189	0.201	0.012	6.3%
Automated Basic Flats	0.243	0.255	0.012	4.9%
Automated 3-Digit Letters	0.178	0.190	0.012	6.7%
Automated 5-Digit Letters	0.160	0.172	0.012	7.5%
Automated 3/5-Digit Flats	0.207	0.219	0.012	5.8%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%
Standard Regular Enhanced Carrier Route				
Automated	0.157	0.169	0.012	7.6%
Basic Letters	0.164	0.176	0.012	7.3%
Basic Nonletters	0.164	0.176	0.012	7.3%
High-Density Letters	0.143	0.155	0.012	8.4%
High-Density Nonletters	0.153	0.165	0.012	7.8%
Saturation Letters	0.134	0.146	0.012	9.0%
Saturation Nonletters	0.141	0.153	0.012	8.5%

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Key Rate per Piece (Dollars per Piece) continued				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%
<p>Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from <u>Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services</u>, Docket No. R97-1.</p> <p>Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.</p>				

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%
First-Class Letters - Workshared per Pound Rate				
Nonautomated Presort	0.000	0.000	0.000	—
Automated Basic Letters	0.000	0.000	0.000	—
Automated 3-Digit Letters	0.000	0.000	0.000	—
Automated 5-Digit Letters	0.000	0.000	0.000	—
Automated Carrier-Route Letters	0.000	0.000	0.000	—
First-Class Workshared				
Second Ounce	0.230	0.230	0.000	0.0%
Third Ounce	0.230	0.230	0.000	0.0%
Above Third Ounce	0.230	0.230	0.000	0.0%
Standard Regular Addition for Pound Rate		0.000	0.000	—
Standard Regular Additional Ounces				
Second Ounce	0.000	0.000	0.000	—
Third Ounce	0.000	0.000	0.000	—
Above Third Ounce	0.041	0.041	0.000	—
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	—
Standard Enhanced Carrier Route				
Second Ounce	0.000	0.000	0.000	—
Third Ounce	0.000	0.000	0.000	—
Above Third Ounce	0.033	0.033	0.000	—

Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.

Revenue Requirement (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Total Revenues	61,651.8	61,157.2	-494.668	-0.8%
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,102.8	-513.404	-0.8%
Net Surplus (Deficiency)	35.6	54.4	18.7	52.5%

Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1		
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference
First-Class Letters and Flats - Single Piece	53,598.402	51,664.292	-1,934.110	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,711.218	-625.603	-3.6%
First-Class PRM and QBRM Letters	919.400	886.123	-33.277	-3.6%
First-Class Letters and Flats - Workshared	41,033.182	43,654.438	2,621.256	6.4%
Nonautomated Presort	4,855.407	4,555.892	-299.515	-6.2%
Automated Basic Letters	4,308.327	4,404.400	96.073	2.2%
Automated Basic Flats	49.024	79.694	30.670	62.6%
Automated 3-Digit Letters	20,879.382	21,827.083	947.701	4.5%
Automated 5-Digit Letters	9,488.132	9,763.032	274.900	2.9%
Automated 3/5-Digit Flats	235.507	244.708	9.201	3.9%
Automated Carrier-Route Letters	1,217.403	2,779.628	1,562.225	128.3%
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,484.328	89.127	6.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	405.696	24.360	6.4%
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	307.026	18.436	6.4%
First-Class Stamped Cards	583.005	583.005	0.000	0.0%
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%
Automated Basic Cards	340.549	316.386	-24.163	-7.1%
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%
Total First Class	101,074.031	101,793.784	719.753	0.7%
Total Periodical	10,257.973	10,257.973	0.000	0.0%
Standard Single Piece				
Standard Regular	37,627.554	37,259.927	-367.627	-1.0%
Nonautomated Basic Letters	2,373.994	4,208.111	1,834.117	77.3%
Nonautomated Basic Nonletters	1,832.877	2,139.124	306.247	16.7%
Nonautomated Presort Letters	2,902.289	2,354.023	-548.266	-18.9%
Nonautomated Presort Nonletters	2,075.756	1,760.033	-315.723	-15.2%
Automated Basic Letters	3,136.543	3,096.007	-40.536	-1.3%
Automated Basic Flats	259.382	256.204	-3.178	-1.2%
Automated 3-Digit Letters	9,535.365	8,141.179	-1,394.186	-14.6%
Automated 5-Digit Letters	6,358.646	6,266.499	-92.147	-1.4%
Automated 3/5-Digit Flats	9,152.702	9,038.748	-113.954	-1.2%
Standard Regular - Second Ounce	18,908.097	18,723.362	-184.735	-1.0%
Standard Regular - Third Ounce	11,086.356	10,978.041	-108.315	-1.0%
Standard Regular - Ounces Above Third	37,206.538	36,843.025	-363.514	-1.0%
Standard Regular Enhanced Carrier Route	28,686.182	27,692.407	-993.775	-3.5%
Automated	2,059.662	1,988.882	-70.780	-3.4%
Basic Letters	3,173.765	3,064.699	-109.066	-3.4%
Basic Nonletters	10,660.705	10,290.093	-370.612	-3.5%
High-Density Letters	392.986	379.481	-13.505	-3.4%
High-Density Nonletters	1,154.078	1,113.957	-40.121	-3.5%
Saturation Letters	3,086.387	2,980.323	-106.064	-3.4%
Saturation Nonletters	8,158.599	7,874.971	-283.628	-3.5%
Standard Enhanced Carrier Route - Second Ounce	18,077.614	17,451.351	-626.263	-3.5%
Standard Enhanced Carrier Route - Third Ounce	12,169.966	11,748.362	-421.604	-3.5%
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	35,768.397	-1,283.592	-3.5%
Standard Regular and Enhanced Carrier Route	66,313.736	64,952.334	-1,361.402	-2.1%
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%
Total Standard A	79,435.987	78,074.585	-1,361.402	-1.7%

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

ABA/EEI/NAPM-T-1 ¹²⁵⁷⁶
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Volume (Million Pieces) - continued				
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>	<u>Percent Difference</u>
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
Total Domestic Mail	193,380.733	192,739.084	-641.649	-0.3%
International Mail	1,006.682	1,006.682	0.000	0.0%
Total Domestic and International Mail	194,387.415	193,745.766	-641.649	-0.3%

Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97).

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Revenue (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,102.309	-640.244	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,843.580	-143.889	-3.6%
First-Class PRM and QBRM Letters	275.820	265.837	-9.983	-3.6%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,316.107	-149.902	-1.3%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	10,793.537	-180.244	-1.6%
Nonautomated Presort	1,508.028	1,369.357	-138.671	-9.2%
Automated Basic Letters	1,184.790	1,149.548	-35.242	-3.0%
Automated Basic Flats	19.959	31.365	11.405	57.1%
Automated 3-Digit Letters	5,533.036	5,325.808	-207.228	-3.7%
Automated 5-Digit Letters	2,362.545	2,225.971	-136.574	-5.8%
Automated 3/5-Digit Flats	65.942	66.071	0.129	0.2%
Automated Carrier-Route Letters	299.481	625.416	325.935	108.8%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	341.396	20.499	6.4%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	93.310	5.603	6.4%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	70.616	4.240	6.4%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	33,740.379	-963.367	-2.8%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,411.008	388.963	4.8%
Nonautomated Basic Letters	586.377	1,039.403	453.027	77.3%
Nonautomated Basic Nonletters	431.007	503.022	72.015	16.7%
Nonautomated Presort Letters	581.072	498.363	-82.709	-14.2%
Nonautomated Presort Nonletters	336.537	299.618	-36.920	-11.0%
Automated Basic Letters	592.807	622.297	29.491	5.0%
Automated Basic Flats	46.060	47.742	1.682	3.7%
Automated 3-Digit Letters	1,624.239	1,480.245	-143.994	-8.9%
Automated 5-Digit Letters	968.666	1,026.226	57.560	5.9%
Automated 3/5-Digit Flats	1,193.906	1,247.391	53.486	4.5%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third	1,511.516	1,496.748	-14.768	-1.0%
Fees, Residual Shape, and Adjustments	149.859	149.953	0.093	0.1%
Standard Regular Enhanced Carrier Route	4,304.005	4,383.740	79.736	1.9%
Automated	323.367	336.121	12.754	3.9%
Basic Letters	520.497	539.387	18.890	3.6%
Basic Nonletters	1,229.214	1,273.297	44.083	3.6%
High-Density Letters	42.999	45.006	2.007	4.7%
High-Density Nonletters	76.576	79.711	3.135	4.1%
Saturation Letters	309.924	326.074	16.150	5.2%
Saturation Nonletters	532.594	557.830	25.236	4.7%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,184.828	-42.519	-3.5%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,794.748	468.698	3.8%

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Revenue (Million Dollars) - continued				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
Total Standard A	13,878.891	14,347.589	468.698	3.4%
Total Standard B	1,712.281	1,712.281	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	5,198.586	5,198.586	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	0.000	0.000	0.000	—
Total Domestic Mail	57,619.284	57,124.616	-494.668	-0.9%
<i>International Mail</i>	1,643.844	1,643.844	0.000	0.0%
<i>Special Services</i>	2,049.606	2,049.606	0.000	0.0%
<i>Other Income</i>	217.242	217.242	0.000	0.0%
Attributable Revenue	61,529.976	61,035.308	-494.668	-0.8%
<i>Continuing Appropriations</i>	67.498	67.498	0.000	0.0%
<i>Investment Income</i>	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,157.177	-494.668	-0.8%
Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).				

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Costs (Million Dollars)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece	12,758.664	12,298.241	-460.423	-3.6%
First-Class Letters and Flats - Presort	4,047.084	4,105.855	58.771	1.5%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
Total First Class	17,398.132	17,000.763	-397.370	-2.3%
Total Periodical	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,140.950	-50.723	-1.0%
Standard Regular Enhanced Carrier Route	1,885.248	1,819.937	-65.311	-3.5%
Standard Regular and Enhanced Carrier Route	7,076.922	6,960.888	-116.034	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
Total Standard A	8,308.850	8,192.816	-116.034	-1.4%
Total Standard B	1,405.285	1,405.285	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	2,677.289	2,677.289	0.000	0.0%
Postal Penalty and Free-for-the Blind	31.757	31.757	0.000	0.0%
Total Domestic Mail	31,824.787	31,311.383	-513.404	-1.6%
International Mail	1,206.030	1,206.030	0.000	0.0%
Special Services	1,284.854	1,284.854	0.000	0.0%
Other Variable Costs	170.322	170.322	0.000	0.0%
Attributable Costs	34,485.993	33,972.589	-513.404	-1.5%
Total Other Costs	26,683.278	26,683.278	0.000	0.0%
Prior Years Loss Recovery	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,102.800	-513.404	-0.8%

	Volume Variable Cost per Piece (Dollars per Piece)		Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).
	Proposed R97-1	Alternate Proposal	
First-Class Letters and Flats - Single Piece	0.2340	0.2340	
First-Class Letters and Flats - Presort	0.0986	0.0941	
First-Class Cards - Single Piece	0.1413	0.1413	
First-Class Cards - Private Presort	0.0650	0.0650	
Standard Regular	0.1380	0.1380	
Standard Regular Enhanced Carrier Rout	0.0657	0.0657	

Note: In the alternate proposal, First-Class workshared BY98 volume variable costs as calculated by Patelunas may be adjusted to continue the historical CRA cost decline in mail processing and to include forwarding cost savings. In this particular scenario, the adjustments are:	
Mail Processing Cost	-0.00196
Forwarding Cost	-0.00262

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Discounts (Dollars per Piece)				
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.030	0.010	50.0%
Automated Basic Letters	0.055	0.069	0.014	25.5%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.086	0.021	32.3%
Automated 5-Digit Letters	0.081	0.102	0.021	25.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.105	0.021	25.0%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.012	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.247	0.000	0.0%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.026	-0.012	-31.6%
Automated Basic Letters	0.058	0.046	-0.012	-20.7%
Automated 3-Digit Letters	0.069	0.057	-0.012	-17.4%
Automated 5-Digit Letters	0.087	0.075	-0.012	-13.8%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.300	0.000	0.0%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.048	-0.012	-20.0%
Automated Basic Flats	0.057	0.045	-0.012	-21.1%
Automated 3/5-Digit Flats	0.093	0.081	-0.012	-12.9%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.176	0.012	7.3%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.176	0.012	7.3%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%
Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.				

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Revenue per Piece (Dollars per Piece)			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3006	-0.010
Automated Basic Letters	0.2750	0.2610	-0.014
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2440	-0.021
Automated 5-Digit Letters	0.2490	0.2280	-0.021
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2250	-0.021
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.2300	0.000
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2470	0.000
Nonautomated Basic Nonletters	0.2352	0.2352	0.000
Nonautomated Presort Letters	0.2002	0.2117	0.011
Nonautomated Presort Nonletters	0.1621	0.1702	0.008
Automated Basic Letters	0.1890	0.2010	0.012
Automated Basic Flats	0.1776	0.1863	0.009
Automated 3-Digit Letters	0.1703	0.1818	0.011
Automated 5-Digit Letters	0.1523	0.1638	0.011
Automated 3/5-Digit Flats	0.1304	0.1380	0.008
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1690	0.012
Basic Letters	0.1640	0.1760	0.012
Basic Nonletters	0.1153	0.1237	0.008
High-Density Letters	0.1094	0.1186	0.009
High-Density Nonletters	0.0664	0.0716	0.005
Saturation Letters	0.1004	0.1094	0.009
Saturation Nonletters	0.0653	0.0708	0.006
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000
Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).			

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%

Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).

Cost Coverage Model
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Fixed Weight Price Indices					
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.2947	-0.0116
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3405	-0.0055
Automated Basic Letters	656.213	0.3085	0.3159	0.3028	-0.0131
Automated Basic Flats	10.180	0.7693	0.7236	0.7052	-0.0184
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2749	-0.0155
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2764	-0.0102
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7182	-0.0239
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3168	-0.0041
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2197	0.0037
Standard Regular Flats		0.2880	0.3043	0.3120	0.0077
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2459	0.0000
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3887	0.0000
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2209	0.0013
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3651	0.0036
Automated Basic Letters	528.261	0.2105	0.2069	0.2159	0.0090
Automated Basic Flats	52.064	0.3366	0.3147	0.3273	0.0125
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2233	0.0040
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.2026	0.0049
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2803	0.0103
Standard ECR Letters		0.1332	0.1423	0.1508	0.0086
Standard ECR Flats		0.1562	0.1531	0.1645	0.0095
Automated	302.099	0.1363	0.1458	0.1546	0.0088
Basic Letters	1,866.041	0.1377	0.1509	0.1596	0.0088
Basic Nonletters	2,341.886	0.1746	0.1734	0.1835	0.0101
High-Density Letters	61.473	0.1292	0.1263	0.1345	0.0082
High-Density Nonletters	248.190	0.1587	0.1579	0.1676	0.0097
Saturation Letters	654.207	0.1193	0.1176	0.1256	0.0080
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1423	0.0087
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0753	0.0153

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Standard (A) Commercial Cost Coverage Increase

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Fixed Weight Price Indices continued					
	Base Period	Base Period		Alternate Proposal	
	Volumes	Weights	Proposed R97-1	Alternate Proposal	Difference
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3308	-0.0106
Automated Basic Letters			0.2823	0.2685	-0.0138
Automated Basic Flats			0.7005	0.6780	-0.0225
Automated 3-Digit Letters			0.2687	0.2483	-0.0204
Automated 5-Digit Letters			0.2555	0.2349	-0.0206
Automated 3/5-Digit Flats			0.7302	0.7052	-0.0250
Automated Carrier-Route Letters			0.2559	0.2350	-0.0209
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2459	0.0000
Nonautomated Basic Nonletters			0.3887	0.3887	0.0000
Nonautomated Presort Letters			0.2017	0.2114	0.0097
Nonautomated Presort Nonletters			0.3253	0.3392	0.0139
Automated Basic Letters			0.1878	0.1976	0.0098
Automated Basic Flats			0.2978	0.3105	0.0126
Automated 3-Digit Letters			0.1721	0.1816	0.0095
Automated 5-Digit Letters			0.1517	0.1608	0.0091
Automated 3/5-Digit Flats			0.2304	0.2416	0.0112
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1546	0.0088
Basic Letters			0.1509	0.1596	0.0088
Basic Nonletters			0.1734	0.1835	0.0101
High-Density Letters			0.1263	0.1345	0.0082
High-Density Nonletters			0.1579	0.1676	0.0097
Saturation Letters			0.1176	0.1256	0.0080
Saturation Nonletters			0.1335	0.1423	0.0087

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Fixed Weight Price Indices continued					
	Base Period	Base Period		Alternate Proposal	Alternate Proposal
	Volumes	Weights	Proposed R97-1	Alternate Proposal	Compared to Proposed R97-1 Difference
User Cost					
First-Class Letters Single Piece			0.0000	0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.0046	0.0098	0.0051
Automated Basic Letters			0.0336	0.0343	0.0007
Automated Basic Flats			0.0231	0.0272	0.0041
Automated 3-Digit Letters			0.0216	0.0265	0.0049
Automated 5-Digit Letters			0.0311	0.0414	0.0104
Automated 3/5-Digit Flats			0.0119	0.0130	0.0011
Automated Carrier-Route Letters			0.0650	0.0818	0.0168
First-Class Stamped Cards			0.0000	0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000	0.0000
Nonautomated Presort			0.0072	0.0140	0.0068
Automated Basic			0.0041	0.0066	0.0025
Automated 3-Digit			0.0217	0.0294	0.0078
Automated 5-Digit			0.0240	0.0299	0.0059
Automated Carrier-Route			0.0359	0.0489	0.0130
Standard Single Piece			0.0000	0.0000	0.0000
Standard Regular					
Nonautomated Basic Letters			0.0000	0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0095	-0.0084
Nonautomated Presort Nonletters			0.0361	0.0258	-0.0103
Automated Basic Letters			0.0191	0.0183	-0.0008
Automated Basic Flats			0.0169	0.0168	-0.0001
Automated 3-Digit Letters			0.0472	0.0417	-0.0055
Automated 5-Digit Letters			0.0460	0.0418	-0.0042
Automated 3/5-Digit Flats			0.0397	0.0388	-0.0009
Standard Regular Enhanced Carrier Route					
Automated			0.0000	0.0000	0.0000
Basic Letters			0.0000	0.0000	0.0000
Basic Nonletters			0.0000	0.0000	0.0000
High-Density Letters			0.0000	0.0000	0.0000
High-Density Nonletters			0.0000	0.0000	0.0000
Saturation Letters			0.0000	0.0000	0.0000
Saturation Nonletters			0.0000	0.0000	0.0000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

Cost Coverage Model
First-Class Workshared Rates at Formal Proposal with
Standard (A) Commercial Cost Coverage Increase

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Key Rate to Revenue per Piece Adjustment					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

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Key Rate to Fixed Weight Index Adjustment			
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

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Volume and Share Adjustments				
	Volume Adjustment	Test Year 1998 After Rates Tolley Forecast	Proposed R97- 1 Unadjusted Volume	Alternate Proposal Unadjusted Volume
First-Class Letters Single Piece	0.47%	54,413.387	54,157.511	52,197.316
First-Class Letters Workshared	2.67%	41,033.182	39,967.926	42,521.131
First-Class Single Piece Cards	-1.04%	2,476.656	2,502.698	2,502.698
First-Class Presort Cards	3.58%	2,463.386	2,378.177	2,441.782
Standard Single Piece	1.21%	161.574	159.641	159.641
Standard Regular Letters	4.63%	24,306.837	23,231.926	23,001.565
Standard Regular Flats	2.57%	13,320.717	12,986.521	12,863.090
Standard ECR Letters	2.44%	8,712.800	8,505.278	8,212.995
Standard ECR Flats	5.33%	19,973.382	18,962.447	18,303.231

	Share Adjustment	Test Year 1998 After Rates Tolley Forecast	Proposed R97- 1 Unadjusted Share	Alternate Proposal Unadjusted Share
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	10.93%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	50.51%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.39%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	6.43%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	9.22%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	13.24%
Automated Basic Letters	4.31%	12.90%	12.37%	12.33%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	31.50%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.64%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.58%

Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).

Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.

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Volume Forecasts				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
First-Class Letters and Flats - Single Piece				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
Cross Elasticities - Sum				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999427
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.962178
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
Cross Volume Effects Lagged Four Quarters				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
Declining Worksharing User Costs				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
First-Class Letters Workshared				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.016657
Cross Elasticities - Sum				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.998945
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.053577
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
Declining Worksharing User Costs				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
First-Class Private Single Piece Cards				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

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Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Presort Cards</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209.508	2,209.508	2,209.508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
<u>Standard Single Piece</u>				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
<u>Standard Regular</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.011583
Flats		0.260348	0.992752	0.983317
Cross Elasticities - Sum				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

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Volume Forecasts continued				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
<u>Standard Regular Enhanced Carrier Route</u>				
<u>Rate Factors</u>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.948411
Flats		0.141174	1.026017	0.990348
<u>Non-Rate Factors</u>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
Personal Consumption Expenditures	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<u>Composite Factors</u>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

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Share Forecasts			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>First-Class Nonautomated Presort</u>			
Unadjusted Share	15.57%	11.79%	10.93%
Share Adjusted for TYAR		11.83%	10.97%
Share Adjusted to Sum to Unity		11.83%	10.44%
Discount (Dollars per Piece)	0.025	0.020	0.030
Mu	0.0709	0.0765	0.0893
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0022
Average User Cost		0.0046	0.0098
<u>First-Class Automated Basic Letters</u>			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.61%
Share Adjusted to Sum to Unity		10.50%	10.09%
Discount (Dollars per Piece)	0.059	0.055	0.069
Mu	0.0311	0.0339	0.0343
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0036
Average User Cost		0.0336	0.0343
<u>First-Class Automated Basic Flats</u>			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.18%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
<u>First-Class Automated 3-Digit Letters</u>			
Unadjusted Share	48.30%	48.90%	50.51%
Share Adjusted for TYAR		50.88%	52.56%
Share Adjusted to Sum to Unity		50.88%	50.00%
Discount (Dollars per Piece)	0.066	0.065	0.086
Mu	0.0258	0.0214	0.0253
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0300
Average User Cost		0.0216	0.0265
<u>First-Class Automated 5-Digit Letters</u>			
Unadjusted Share	21.89%	22.02%	22.39%
Share Adjusted for TYAR		23.12%	23.51%
Share Adjusted to Sum to Unity		23.12%	22.36%
Discount (Dollars per Piece)	0.082	0.081	0.102
Mu	0.0352	0.0316	0.0418
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0136
Average User Cost		0.0311	0.0414
<u>First-Class Automated 3/5-Digit Flats</u>			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.56%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

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Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Automated Carrier-Route Letters</u>			
Unadjusted Share	3.37%	2.85%	6.43%
Share Adjusted for TYAR		2.97%	6.69%
Share Adjusted to Sum to Unity		2.97%	6.37%
Discount (Dollars per Piece)	0.090	0.084	0.105
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0015
Average User Cost		0.0650	0.0818
<u>First-Class Nonautomated Presort Cards</u>			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
<u>First-Class Automated Basic Cards</u>			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
<u>First-Class Automated 3-Digit Cards</u>			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
<u>First-Class Automated 5-Digit Cards</u>			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
<u>First-Class Automated Carrier-Route Cards</u>			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

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Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
<u>Standard Regular Nonautomated Presort Letters</u>			
Unadjusted Share	15.17%	11.25%	9.22%
Share Adjusted for TYAR		11.94%	9.78%
Discount (Dollars per Piece)	0.047	0.038	0.026
Mu	0.1119	0.1060	0.0993
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0015
Average User Cost		0.0179	0.0095
<u>Standard Regular Nonautomated Presort Nonletters</u>			
Unadjusted Share	19.86%	15.47%	13.24%
Share Adjusted for TYAR		15.58%	13.34%
Discount (Dollars per Piece)	0.081	0.060	0.048
Mu	0.1330	0.1190	0.1112
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0029
Average User Cost		0.0361	0.0258
<u>Standard Regular Automated Basic Letters</u>			
Unadjusted Share	14.85%	12.37%	12.33%
Share Adjusted for TYAR		12.90%	12.86%
Discount (Dollars per Piece)	0.073	0.058	0.046
Mu	0.0197	0.0190	0.0183
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0034
Average User Cost		0.0191	0.0183
<u>Standard Regular Automated Basic Flats</u>			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.94%
Discount (Dollars per Piece)	0.029	0.057	0.045
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0005
Average User Cost		0.0169	0.0168
<u>Standard Regular Automated 3-Digit Letters</u>			
Unadjusted Share	46.54%	36.53%	31.50%
Share Adjusted for TYAR		39.23%	33.83%
Discount (Dollars per Piece)	0.081	0.069	0.057
Mu	0.0468	0.0492	0.0463
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0048
Average User Cost		0.0472	0.0417
<u>Standard Regular Automated 5-Digit Letters</u>			
Unadjusted Share	14.29%	26.76%	26.64%
Share Adjusted for TYAR		26.16%	26.04%
Discount (Dollars per Piece)	0.101	0.087	0.075
Mu	0.0566	0.0462	0.0423
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0088
Average User Cost		0.0460	0.0418
<u>Standard Regular Automated 3/5-Digit Flats</u>			
Unadjusted Share	68.84%	68.78%	68.58%
Share Adjusted for TYAR		68.71%	68.51%
Discount (Dollars per Piece)	0.117	0.093	0.081
Mu	0.0422	0.0397	0.0389
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0290
Average User Cost		0.0397	0.0388

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Share Forecasts continued		
	Base Values	Proposed R97-1 Alternate Proposal
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>		
Standard Regular ECR Automated	23.64%	23.64%
Standard Regular ECR Automated Basic Letters	36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters	53.37%	53.37%
Standard Regular ECR High Density Letters	4.51%	4.51%
Standard Regular ECR High-Density Nonletters	5.78%	5.78%
Standard Regular ECR Saturation Letters	35.42%	35.42%
Standard Regular ECR Saturation Nonletters	40.85%	40.85%
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7		

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TECHNICAL APPENDIX D

Cost Coverage Model First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals with Standard (A) Commercial Cost Coverage Increase

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Cost Coverage			Alternate Proposal Compared to Proposed R97-1 Difference
	Proposed R97-1	Alternate Proposal	
First-Class Letters and Flats - Single Piece	173.60%	173.64%	0.04%
First-Class Letters and Flats - Presort	283.32%	270.54%	-12.77%
First-Class Cards - Single Piece	152.92%	152.92%	0.00%
First-Class Cards - Private Presort	267.27%	248.54%	-18.73%
<i>Total First Class</i>	199.47%	197.33%	-2.14%
<i>Total Periodical</i>	106.10%	106.10%	0.00%
Standard Single Piece			
Standard Regular	154.52%	166.11%	11.59%
Standard Regular Enhanced Carrier Route	228.30%	245.06%	16.77%
Standard Regular and Enhanced Carrier Route	174.17%	186.67%	12.50%
Standard Nonprofit	122.07%	122.07%	0.00%
Standard Nonprofit Enhanced Carrier Route	160.97%	160.97%	0.00%
<i>Total Standard A</i>	167.04%	177.50%	10.46%
<i>Total Standard B</i>	121.85%	121.85%	0.00%
<i>Priority Mail, Express Mail and Mailgrams</i>	194.17%	194.17%	0.00%
<i>Postal Penalty and Free-for-the Blind</i>	0.00%	0.00%	0.00%
<i>International Mail</i>	136.30%	136.30%	0.00%
<i>Special Services</i>	159.52%	159.52%	0.00%
<i>Attributable Costs</i>	178.42%	179.68%	1.26%
Total	100.06%	100.07%	0.01%

Cost coverage for a mail type is the ratio of revenue (p. 8) to volume variable cost (p. 10) for the mail type.

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Key Rate per Piece (Dollars per Piece)					(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference	
First-Class Letters and Flats - Single Piece	0.330	0.330	0.000	0.0%	
First-Class Letters and Flats - Single Piece Additional Ounces	0.230	0.230	0.000	0.0%	
First-Class PRM and QBRM Letters	0.300	0.300	0.000	0.0%	
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort	0.310	0.300	-0.010	-3.2%	
Automated Basic Letters	0.275	0.261	-0.014	-5.1%	
Automated Basic Flats	0.300	0.290	-0.010	-3.3%	
Automated 3-Digit Letters	0.265	0.244	-0.021	-7.9%	
Automated 5-Digit Letters	0.249	0.228	-0.021	-8.4%	
Automated 3/5-Digit Flats	0.280	0.270	-0.010	-3.6%	
Automated Carrier-Route Letters	0.246	0.225	-0.021	-8.5%	
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort	0.000	0.000	0.000	—	
Automated Basic Letters	0.000	0.000	0.000	—	
Automated Basic Flats	0.000	0.000	0.000	—	
Automated 3-Digit Letters	0.000	0.000	0.000	—	
Automated 5-Digit Letters	0.000	0.000	0.000	—	
Automated 3/5-Digit Flats	0.000	0.000	0.000	—	
Automated Carrier-Route Letters	0.000	0.000	0.000	—	
First-Class Letters and Flats - Workshared Second Ounce	0.230	0.120	-0.110	-47.8%	
First-Class Letters and Flats - Workshared Third Ounce	0.230	0.120	-0.110	-47.8%	
First-Class Letters and Flats - Workshared Ounces Above Third	0.230	0.230	0.000	0.0%	
First-Class Stamped Cards	0.210	0.210	0.000	0.0%	
First-Class PRM and QBRM Cards	0.180	0.180	0.000	0.0%	
First-Class Private Cards					
Single Piece Cards	0.210	0.210	0.000	0.0%	
Nonautomated Presort Cards	0.190	0.180	-0.010	-5.3%	
Automated Basic Cards	0.176	0.166	-0.010	-5.7%	
Automated 3-Digit Cards	0.170	0.159	-0.011	-6.5%	
Automated 5-Digit Cards	0.159	0.143	-0.016	-10.1%	
Automated Carrier-Route Cards	0.156	0.140	-0.016	-10.3%	
Standard Single Piece	0.330	0.330	0.000	0.0%	
Standard Regular					
Nonautomated Basic Letters	0.247	0.251	0.004	1.6%	
Nonautomated Basic Nonletters	0.300	0.304	0.004	1.3%	
Nonautomated Presort Letters	0.209	0.225	0.016	7.7%	
Nonautomated Presort Nonletters	0.240	0.256	0.016	6.7%	
Automated Basic Letters	0.189	0.205	0.016	8.5%	
Automated Basic Flats	0.243	0.259	0.016	6.6%	
Automated 3-Digit Letters	0.178	0.194	0.016	9.0%	
Automated 5-Digit Letters	0.160	0.176	0.016	10.0%	
Automated 3/5-Digit Flats	0.207	0.223	0.016	7.7%	
Standard Regular - Second Ounce	0.000	0.000	0.000	—	
Standard Regular - Third Ounce	0.000	0.000	0.000	—	
Standard Regular - Ounces Above Third	0.041	0.041	0.000	0.0%	
Standard Regular Enhanced Carrier Route					
Automated	0.157	0.173	0.016	10.2%	
Basic Letters	0.164	0.180	0.016	9.8%	
Basic Nonletters	0.164	0.180	0.016	9.8%	
High-Density Letters	0.143	0.159	0.016	11.2%	
High-Density Nonletters	0.153	0.169	0.016	10.5%	
Saturation Letters	0.134	0.150	0.016	11.9%	
Saturation Nonletters	0.141	0.157	0.016	11.3%	

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Key Rate per Piece (Dollars per Piece) continued					(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference	
Standard Regular Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—	
Standard Regular Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—	
Standard Regular Enhanced Carrier Route - Ounces Above Third	0.033	0.033	0.000	0.0%	
<p>Key rates are inputs to the model and are the rate for one specific type of mail. The key rates for Proposed R97-1 are obtained from <u>Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services</u>, Docket No. R97-1.</p> <p>Key rates for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Discounts are shown on p. 11.</p>					

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Additional Ounce and Pound Rates (Dollars per Piece or per Ounce)					(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference	
First-Class Single Piece Additional Ounces	0.230	0.230	0.000	0.0%	
First-Class Letters - Workshared per Pound Rate					
Nonautomated Presort	0.000	0.000	0.000	—	
Automated Basic Letters	0.000	0.000	0.000	—	
Automated 3-Digit Letters	0.000	0.000	0.000	—	
Automated 5-Digit Letters	0.000	0.000	0.000	—	
Automated Carrier-Route Letters	0.000	0.000	0.000	—	
First-Class Workshared					
Second Ounce	0.230	0.120	-0.110	-47.8%	
Third Ounce	0.230	0.120	-0.110	-47.8%	
Above Third Ounce	0.230	0.230	0.000	0.0%	
Standard Regular Addition for Pound Rate		0.000	0.000	—	
Standard Regular Additional Ounces					
Second Ounce	0.000	0.000	0.000	—	
Third Ounce	0.000	0.000	0.000	—	
Above Third Ounce	0.041	0.041	0.000	—	
Standard Enhanced Carrier Route Addition for Pound Rate		0.000	0.000	—	
Standard Enhanced Carrier Route					
Second Ounce	0.000	0.000	0.000	—	
Third Ounce	0.000	0.000	0.000	—	
Above Third Ounce	0.033	0.033	0.000	—	
Additional ounce and pound rates are inputs to the model. The additional ounce and pound rates for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Additional ounce and pound rates for an alternative proposal are set by the model user by changing each rate.					

Revenue Requirement (Million Dollars)					(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference	
Total Revenues	61,651.8	61,119.2	-532.662	-0.9%	
Total Revenue Requirement (Equals Total Costs)	61,616.2	61,077.8	-538.399	-0.9%	
Net Surplus (Deficiency)	35.6	41.4	5.7	16.0%	
Total Revenue is obtained from the Revenue Table on p. 6. Total Revenue Requirement (Total Costs) is obtained from the Cost Table on p. 10. Net Surplus(Deficiency) is Total Revenues minus Total Revenue Requirement.					

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Volume (Million Pieces)		Alternate Proposal Compared to Proposed R97-1			(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Difference	Percent Difference	
First-Class Letters and Flats - Single Piece	53,598.402	51,678.396	-1,920.006	-3.6%	
First-Class Letters and Flats - Single Piece Additional Ounces	17,336.821	16,715.780	-621.041	-3.6%	
First-Class PRM and QBRM Letters	919.400	886.366	-33.034	-3.6%	
First-Class Letters and Flats - Workshared	41,033.182	43,882.863	2,849.681	6.9%	
Nonautomated Presort	4,855.407	4,579.731	-275.676	-5.7%	
Automated Basic Letters	4,308.327	4,427.446	119.119	2.8%	
Automated Basic Flats	49.024	80.111	31.087	63.4%	
Automated 3-Digit Letters	20,879.382	21,941.295	1,061.913	5.1%	
Automated 5-Digit Letters	9,488.132	9,814.118	325.986	3.4%	
Automated 3/5-Digit Flats	235.507	245.988	10.481	4.5%	
Automated Carrier-Route Letters	1,217.403	2,794.173	1,576.770	129.5%	
First-Class Letters and Flats - Workshared Ounces One to Two	1,395.201	1,492.095	96.894	6.9%	
First-Class Letters and Flats - Workshared Ounces Two to Three	381.336	407.819	26.483	6.9%	
First-Class Letters and Flats - Workshared Ounces Over Three	288.590	308.632	20.042	6.9%	
First-Class Stamped Cards	583.005	583.005	0.000	0.0%	
First-Class PRM and QBRM Cards	108.300	108.300	0.000	0.0%	
First-Class Private Cards	4,831.742	4,897.626	65.884	1.4%	
Single-Piece Cards	2,368.356	2,368.356	0.000	0.0%	
Nonautomated Presort Cards	667.024	699.138	32.114	4.8%	
Automated Basic Cards	340.549	316.386	-24.163	-7.1%	
Automated 3-Digit Cards	826.560	830.263	3.703	0.4%	
Automated 5-Digit Cards	526.697	505.418	-21.279	-4.0%	
Automated Carrier-Route Cards	102.556	178.066	75.510	73.6%	
Total First Class	101,074.031	102,036.556	962.525	1.0%	
Total Periodical	10,257.973	10,257.973	0.000	0.0%	
Standard Single Piece					
Standard Regular	37,627.554	37,047.001	-580.553	-1.5%	
Nonautomated Basic Letters	2,373.994	4,182.172	1,808.178	76.2%	
Nonautomated Basic Nonletters	1,832.877	2,128.653	295.776	16.1%	
Nonautomated Presort Letters	2,902.289	2,339.513	-562.776	-19.4%	
Nonautomated Presort Nonletters	2,075.756	1,751.418	-324.338	-15.6%	
Automated Basic Letters	3,136.543	3,076.923	-59.620	-1.9%	
Automated Basic Flats	259.382	254.950	-4.432	-1.7%	
Automated 3-Digit Letters	9,535.365	8,090.997	-1,444.368	-15.1%	
Automated 5-Digit Letters	6,358.646	6,227.872	-130.774	-2.1%	
Automated 3/5-Digit Flats	9,152.702	8,994.504	-158.198	-1.7%	
Standard Regular - Second Ounce	18,908.097	18,616.365	-291.732	-1.5%	
Standard Regular - Third Ounce	11,086.356	10,915.306	-171.051	-1.5%	
Standard Regular - Ounces Above Third	37,206.538	36,632.481	-574.057	-1.5%	
Standard Regular Enhanced Carrier Route	28,686.182	27,381.104	-1,305.078	-4.5%	
Automated	2,059.662	1,966.699	-92.963	-4.5%	
Basic Letters	3,173.765	3,030.516	-143.249	-4.5%	
Basic Nonletters	10,660.705	10,174.023	-486.682	-4.6%	
High-Density Letters	392.986	375.248	-17.738	-4.5%	
High-Density Nonletters	1,154.078	1,101.392	-52.686	-4.6%	
Saturation Letters	3,086.387	2,947.082	-139.305	-4.5%	
Saturation Nonletters	8,158.599	7,786.143	-372.456	-4.6%	
Standard Enhanced Carrier Route - Second Ounce	18,077.614	17,255.173	-822.441	-4.5%	
Standard Enhanced Carrier Route - Third Ounce	12,169.966	11,616.294	-553.673	-4.5%	
Standard Enhanced Carrier Route - Ounces Above Third	37,051.988	35,366.308	-1,685.680	-4.5%	
Standard Regular and Enhanced Carrier Route	66,313.736	64,428.105	-1,885.631	-2.8%	
Standard Nonprofit	10,550.968	10,550.968	0.000	0.0%	
Standard Nonprofit Enhanced Carrier Route	2,571.283	2,571.283	0.000	0.0%	
Total Standard A	79,435.987	77,550.356	-1,885.631	-2.4%	

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Volume (Million Pieces) - continued				(Revised 2/12/98)
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
<i>Total Standard B</i>	1,038.641	1,038.641	0.000	0.0%
<i>Priority Mail, Express Mail and Mailgrams</i>	1,219.891	1,219.891	0.000	0.0%
<i>Postal Penalty and Free-for-the Blind</i>	354.210	354.210	0.000	0.0%
<i>Total Domestic Mail</i>	193,380.733	192,457.627	-923.106	-0.5%
<i>International Mail</i>	1,006.682	1,006.682	0.000	0.0%
<i>Total Domestic and International Mail</i>	194,387.415	193,464.309	-923.106	-0.5%

Volume by mail type is obtained from the volume forecasting equations and shares shown on pp. 20-26 or set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97).

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Revenue (Million Dollars)		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Letters and Flats - Single Piece Per Piece	17,742.553	17,106.978	-635.575	-3.6%
First-Class Letters and Flats - Single Piece Additional Ounces	3,987.469	3,844.629	-142.839	-3.6%
First-Class PRM and QBRM Letters	275.820	265.910	-9.910	-3.6%
First-Class Single-Piece Letter Fees	142.918	142.918	0.000	0.0%
First-Class Letters and Flats - Workshared Total	11,466.008	11,166.238	-299.770	-2.6%
First-Class Letters and Flats - Workshared Per Piece	10,973.781	10,850.015	-123.766	-1.1%
Nonautomated Presort	1,508.028	1,376.522	-131.505	-8.7%
Automated Basic Letters	1,184.790	1,155.564	-29.226	-2.5%
Automated Basic Flats	19.959	31.529	11.569	58.0%
Automated 3-Digit Letters	5,533.036	5,353.676	-179.360	-3.2%
Automated 5-Digit Letters	2,362.545	2,237.619	-124.926	-5.3%
Automated 3/5-Digit Flats	65.942	66.417	0.475	0.7%
Automated Carrier-Route Letters	299.481	628.689	329.208	109.9%
First-Class Letters and Flats - Workshared Ounces One to Two	320.896	179.051	-141.845	-44.2%
First-Class Letters and Flats - Workshared Ounces Two to Three	87.707	48.938	-38.769	-44.2%
First-Class Letters and Flats - Workshared Ounces Over Three	66.376	70.985	4.610	6.9%
First-Class Letters and Flats - Workshared Fees	17.248	17.248	0.000	0.0%
First-Class Stamped Cards	122.431	122.431	0.000	0.0%
First-Class PRM and QBRM Cards	19.494	19.494	0.000	0.0%
First-Class Private Cards	937.547	918.198	-19.349	-2.1%
Single-Piece Cards	510.618	510.618	0.000	0.0%
Nonautomated Presort Cards	126.735	125.845	-0.890	-0.7%
Automated Basic Cards	59.937	52.520	-7.417	-12.4%
Automated 3-Digit Cards	140.515	132.012	-8.503	-6.1%
Automated 5-Digit Cards	83.745	72.275	-11.470	-13.7%
Automated Carrier-Route Cards	15.999	24.929	8.930	55.8%
First-Class Single Piece Cards Fees	8.470	8.470	0.000	0.0%
First-Class Workshared Cards Fees	1.035	1.035	0.000	0.0%
Total First Class	34,703.746	33,596.301	-1,107.444	-3.2%
Total Periodical	2,125.781	2,125.781	0.000	0.0%
Standard Single Piece				
Standard Regular	8,022.045	8,490.955	468.910	5.8%
Nonautomated Basic Letters	586.377	1,049.725	463.349	79.0%
Nonautomated Basic Nonletters	431.007	507.233	76.227	17.7%
Nonautomated Presort Letters	581.072	504.256	-76.816	-13.2%
Nonautomated Presort Nonletters	336.537	302.883	-33.654	-10.0%
Automated Basic Letters	592.807	630.769	37.963	6.4%
Automated Basic Flats	46.060	48.254	2.194	4.8%
Automated 3-Digit Letters	1,624.239	1,502.092	-122.148	-7.5%
Automated 5-Digit Letters	968.666	1,043.619	74.952	7.7%
Automated 3/5-Digit Flats	1,193.906	1,263.957	70.052	5.9%
Standard Regular - Second Ounce	0.000	0.000	0.000	—
Standard Regular - Third Ounce	0.000	0.000	0.000	—
Standard Regular - Ounces Above Third	1,511.516	1,488.195	-23.321	-1.5%
Fees, Residual Shape, and Adjustments	149.859	149.972	0.113	0.1%
Standard Regular Enhanced Carrier Route	4,304.005	4,409.877	105.872	2.5%
Automated	323.367	340.239	16.872	5.2%
Basic Letters	520.497	545.493	24.995	4.8%
Basic Nonletters	1,229.214	1,287.547	58.333	4.7%
High-Density Letters	42.999	45.652	2.653	6.2%
High-Density Nonletters	76.576	80.722	4.147	5.4%
Saturation Letters	309.924	331.271	21.347	6.9%
Saturation Nonletters	532.594	565.957	33.363	6.3%
Standard Enhanced Carrier Route - Second Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Third Ounce	0.000	0.000	0.000	—
Standard Enhanced Carrier Route - Ounces Above Third	1,227.347	1,171.509	-55.838	-4.5%
Fees, Residual Shape, and Adjustments	41.487	41.487	0.000	0.0%
Standard Regular and Enhanced Carrier Route	12,326.050	12,900.831	574.782	4.7%

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First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Revenue (Million Dollars) - continued			(Revised 2/12/98)	
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
Standard Nonprofit	1,351.433	1,351.433	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	201.408	201.408	0.000	0.0%
Total Standard A	13,878.891	14,453.672	574.782	4.1%
Total Standard B	1,712.281	1,712.281	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	5,198.586	5,198.586	0.000	0.0%
Postal Penalty and Free-for-the Blind	0.000	0.000	0.000	—
Total Domestic Mail	57,619.284	57,086.622	-532.662	-0.9%
International Mail	1,643.844	1,643.844	0.000	0.0%
Special Services	2,049.606	2,049.606	0.000	0.0%
Other Income	217.242	217.242	0.000	0.0%
Attributable Revenue	61,529.976	60,997.314	-532.662	-0.9%
Continuing Appropriations	67.498	67.498	0.000	0.0%
Investment Income	54.371	54.371	0.000	0.0%
Total Revenue	61,651.845	61,119.183	-532.662	-0.9%

Revenue is revenue per piece (p. 12) multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other income), revenue is set at the levels shown in the Direct Testimony of Donald J. O'Hara in Docket No. R97-1, USPS-T-30, Exhibit USPS-30B (revised 9-19-97).

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First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Costs (Million Dollars)		(Revised 2/12/98)		
		Alternate Proposal Compared to Proposed R97-1		
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Difference</u>	<u>Percent Difference</u>
First-Class Letters and Flats - Single Piece	12,758.664	12,301.599	-457.065	-3.6%
First-Class Letters and Flats - Presort	4,047.084	4,127.339	80.255	2.0%
First-Class Cards - Single Piece	432.261	432.261	0.000	0.0%
First-Class Cards - Private Presort	160.123	164.406	4.283	2.7%
Total First Class	17,398.132	17,025.604	-372.528	-2.1%
Total Periodical	2,003.474	2,003.474	0.000	0.0%
Standard Single Piece	-0.298	-0.298		
Standard Regular	5,191.674	5,111.572	-80.102	-1.5%
Standard Regular Enhanced Carrier Route	1,885.248	1,799.479	-85.769	-4.5%
Standard Regular and Enhanced Carrier Route	7,076.922	6,911.051	-165.871	
Standard Nonprofit	1,107.105	1,107.105	0.000	0.0%
Standard Nonprofit Enhanced Carrier Route	125.121	125.121	0.000	0.0%
Total Standard A	8,308.850	8,142.979	-165.871	-2.0%
Total Standard B	1,405.285	1,405.285	0.000	0.0%
Priority Mail, Express Mail and Mailgrams	2,677.289	2,677.289	0.000	0.0%
Postal Penalty and Free-for-the Blind	31.757	31.757	0.000	0.0%
Total Domestic Mail	31,824.787	31,286.388	-538.399	-1.7%
International Mail	1,206.030	1,206.030	0.000	0.0%
Special Services	1,284.854	1,284.854	0.000	0.0%
Other Variable Costs	170.322	170.322	0.000	0.0%
Attributable Costs	34,485.993	33,947.594	-538.399	-1.6%
Total Other Costs	26,683.278	26,683.278	0.000	0.0%
Prior Years Loss Recovery	446.933	446.933	0.000	0.0%
Total Costs	61,616.204	61,077.805	-538.399	-0.9%

	Volume Variable Cost per Piece (Dollars per Piece)		
	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	
First-Class Letters and Flats - Single Piec	0.2340	0.2340	
First-Class Letters and Flats - Presort	0.0986	0.0941	
First-Class Cards - Single Piece	0.1413	0.1413	
First-Class Cards - Private Presort	0.0650	0.0650	
Standard Regular	0.1380	0.1380	
Standard Regular Enhanced Carrier Rout	0.0657	0.0657	

Costs are cost per piece multiplied by volume (p. 6) for First-Class and standard (A) commercial mail. For other types of mail and other types of revenue (e.g., special services, other variable costs), costs are set at the levels expected by the Postal Service in R97-1 Proposed (as shown in Direct Testimony of Richard Patelunas in Docket No. R97-1, USPS-T-15, Exhibit USPS-15J (revised 8/22/97)).

Note: In the alternate proposal, First-Class workshared BY98 volume variable costs as calculated by Patelunas may be adjusted to continue the historical CRA cost decline in mail processing and to include forwarding cost savings. In this particular scenario, the adjustments are:

Mail Processing Cost	-0.00196
Forwarding Cost	-0.00262

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Discounts (Dollars per Piece)		(Revised 2/12/98)		
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference	Percent Difference
First-Class Single Piece Letters Rate	0.330	0.330	0.000	0.0%
First-Class Letters and Flats - Workshared Discount Change from Current Rates:		0		
Nonautomated Presort	0.020	0.030	0.010	50.0%
Automated Basic Letters	0.055	0.069	0.014	25.5%
Automated Basic Flats	0.030	0.040	0.010	33.3%
Automated 3-Digit Letters	0.065	0.086	0.021	32.3%
Automated 5-Digit Letters	0.081	0.102	0.021	25.9%
Automated 3/5-Digit Flats	0.050	0.060	0.010	20.0%
Automated Carrier-Route Letters	0.084	0.105	0.021	25.0%
First-Class Single Piece Cards Rate	0.210	0.210	0.000	0.0%
First-Class Private Cards - Workshared Discounts for:				
Nonautomated Presort Cards	0.020	0.030	0.010	50.0%
Automated Basic Cards	0.034	0.044	0.010	29.4%
Automated 3-Digit Cards	0.040	0.051	0.011	27.5%
Automated 5-Digit Cards	0.051	0.067	0.016	31.4%
Automated Carrier-Route Cards	0.054	0.070	0.016	29.6%
Standard Regular Discount Decrease and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.012	
Standard Regular and Enhanced Carrier Route Rate Increase from Proposed R97-1			0.004	
Standard Regular Nonautomated Basic Letters Rate	0.247	0.251	0.004	1.6%
Standard Regular Letters Discounts for:				
Nonautomated Presort Letters	0.038	0.026	-0.012	-31.6%
Automated Basic Letters	0.058	0.046	-0.012	-20.7%
Automated 3-Digit Letters	0.069	0.057	-0.012	-17.4%
Automated 5-Digit Letters	0.087	0.075	-0.012	-13.8%
Standard Regular Nonautomated Basic Nonletters Rate	0.300	0.304	0.004	1.3%
Standard Regular Nonletters Discounts for:				
Nonautomated Presort Nonletters	0.060	0.048	-0.012	-20.0%
Automated Basic Flats	0.057	0.045	-0.012	-21.1%
Automated 3/5-Digit Flats	0.093	0.081	-0.012	-12.9%
Standard Regular Enhanced Carrier Route Basic Letters Rate	0.164	0.180	0.016	9.8%
Standard Regular Enhanced Carrier Route Letters Discounts for:				
Automated	0.007	0.007	0.000	0.0%
High-Density Letters	0.021	0.021	0.000	0.0%
Saturation Letters	0.030	0.030	0.000	0.0%
Standard Regular Enhanced Carrier Route Basic Nonletters	0.164	0.180	0.016	9.8%
Standard Regular Enhanced Carrier Route Nonletters Discount for:				
High-Density Nonletters	0.011	0.011	0.000	0.0%
Saturation Nonletters	0.023	0.023	0.000	0.0%

Discounts are inputs to the model and are the discount for one specific type of mail. The discounts for Proposed R97-1 are obtained from Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R97-1. Discounts for an alternative proposal are set by the model user by changing each key rate or each discount and the mail type to which the discount is relative. Key rates are shown on p. 3.

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Revenue per Piece (Dollars per Piece)			
	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
First-Class Letters and Flats - Single Piece	0.3310	0.3310	0.000
First-Class Letters and Flats - Single Piece Additional Ounces	0.2300	0.2300	0.000
First-Class PRM and QBRM Letters	0.3000	0.3000	0.000
First-Class Letters and Flats - Workshared per Piece Rate			
Nonautomated Presort	0.3106	0.3006	-0.010
Automated Basic Letters	0.2750	0.2610	-0.014
Automated Basic Flats	0.4071	0.3936	-0.014
Automated 3-Digit Letters	0.2650	0.2440	-0.021
Automated 5-Digit Letters	0.2490	0.2280	-0.021
Automated 3/5-Digit Flats	0.2800	0.2700	-0.010
Automated Carrier-Route Letters	0.2460	0.2250	-0.021
First-Class Letters and Flats - Workshared per Pound Rate			
Nonautomated Presort	0.0000	0.0000	0.000
Automated Basic Letters	0.0000	0.0000	0.000
Automated Basic Flats	0.0000	0.0000	0.000
Automated 3-Digit Letters	0.0000	0.0000	0.000
Automated 5-Digit Letters	0.0000	0.0000	0.000
Automated 3/5-Digit Flats	0.0000	0.0000	0.000
Automated Carrier-Route Letters	0.0000	0.0000	0.000
First-Class Letters and Flats - Workshared Ounces One to Two	0.2300	0.1200	-0.110
First-Class Letters and Flats - Workshared Ounces Two to Three	0.2300	0.1200	-0.110
First-Class Letters and Flats - Workshared Ounces Over Three	0.2300	0.2300	0.000
First-Class Stamped Cards	0.2100	0.2100	0.000
First-Class PRM and QBRM Cards	0.1800	0.1800	0.000
First-Class Private Cards			
Single Piece Cards	0.2156	0.2156	0.000
Nonautomated Presort Cards	0.1900	0.1800	-0.010
Automated Basic Cards	0.1760	0.1660	-0.010
Automated 3-Digit Cards	0.1700	0.1590	-0.011
Automated 5-Digit Cards	0.1590	0.1430	-0.016
Automated Carrier-Route Cards	0.1560	0.1400	-0.016
Standard Single Piece	0.9290	0.9290	0.000
Standard Regular			
Nonautomated Basic Letters	0.2470	0.2510	0.004
Nonautomated Basic Nonletters	0.2352	0.2383	0.003
Nonautomated Presort Letters	0.2002	0.2155	0.015
Nonautomated Presort Nonletters	0.1621	0.1729	0.011
Automated Basic Letters	0.1890	0.2050	0.016
Automated Basic Flats	0.1776	0.1893	0.012
Automated 3-Digit Letters	0.1703	0.1856	0.015
Automated 5-Digit Letters	0.1523	0.1676	0.015
Automated 3/5-Digit Flats	0.1304	0.1405	0.010
Standard Regular - Second Ounce	0.0000	0.0000	0.000
Standard Regular - Third Ounce	0.0000	0.0000	0.000
Standard Regular - Ounces Above Third	0.0406	0.0406	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.1570	0.1730	0.016
Basic Letters	0.1640	0.1800	0.016
Basic Nonletters	0.1153	0.1266	0.011
High-Density Letters	0.1094	0.1217	0.012
High-Density Nonletters	0.0664	0.0733	0.007
Saturation Letters	0.1004	0.1124	0.012
Saturation Nonletters	0.0653	0.0727	0.007
Standard Enhanced Carrier Route - Second Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Third Ounce	0.0000	0.0000	0.000
Standard Enhanced Carrier Route - Ounces Above Third	0.0331	0.0331	0.000
Standard Nonprofit	0.1250	0.1250	0.000
Standard Nonprofit Enhanced Carrier Route	0.0750	0.0750	0.000

Revenue per piece for Proposed R97-1 is taken from Direct Testimony of David R. Fronk in Docket No. R97-1, USPS-T-32, Workpaper 1 and Direct Testimony of Joseph D. Moeller in Docket No. R97-1, USPS-T-36, Workpaper 1. Revenue per piece in the Alternative Proposal is the key rate per piece (p. 3) multiplied by the key rate to revenue per piece adjustment (p. 17).

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

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 (Revised 2/12/98)

Additional Ounces as Percent of First Ounces		
	Proposed R97-1	Alternate Proposal
First-Class Single Piece	32.35%	32.35%
First-Class Workshared		
Second Ounce	3.40%	3.40%
Third Ounce	0.93%	0.93%
Ounces Above Third Ounce	0.70%	0.70%
Standard Regular		
Second Ounce	50.25%	50.25%
Third Ounce	29.46%	29.46%
Ounces Above Third Ounce	98.88%	98.88%
Standard Enhanced Carrier Route		
Second Ounce	63.02%	63.02%
Third Ounce	42.42%	42.42%
Ounces Above Third Ounce	129.16%	129.16%
Additional ounces charged for as a percentage of first ounces is obtained from revised attachment to MMA/USPS-T32-1 for First-Class and LR-H-182, "Standard Mail (A) Unit Cost by Weight Increment," Table 1 for standard (A). The data are shown in sheet Weight Data.		

Economic and Demographic Variables				Alternate Proposal Compared to Proposed R97-1
	Base Values	Proposed R97-1	Alternate Proposal	Difference
Real GDP Growth		2.5%	2.5%	0.000
Overall Price Index	1.106	1.147	1.147	0.000
Real Wholesale Price of Pulp and Paper	1.676	1.737	1.737	0.000
Price of Printing	1.141	1.147	1.147	0.000
Price of Computer Equipment	0.314	0.206	0.206	0.000
CPM, Newspaper Advertising	1.698	1.662	1.662	0.000
CPM, Radio Advertising	1.319	1.331	1.331	0.000
CPM, Television Advertising	1.679	1.621	1.621	0.000
Permanent Income (1992 Dollars)	27.965	28.738	28.738	0.000
Transitory Income	0.823	0.815	0.815	0.000
Transitory Income Lagged Four Quarters	0.825	0.823	0.823	0.000
Personal Consumption Expenditures	25.799	26.553	26.553	0.000
Population Over 22 Years of Age (millions)	182.771	185.198	185.198	0.000
Standard Regular Lagged Four Quarters	58,270.890	62,824.703	62,824.703	0.000
Standard Nonprofit	12,718.009	13,058.111	13,058.111	0.000
Time Trend	81.5	87.5	87.5	0.000
Time	70.5	76.5	76.5	0.000
Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173. Standard regular and standard nonprofit volumes are obtained from Direct Testimony of George S. Tolley in Docket No. R97-1, USPS-T-6, Table 2 (revised 10/9/97) and Table 3 (revised 10/9/97).				

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

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Fixed Weight Price Indices					
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Alternate Proposal Compared to Proposed R97-1 Difference
Price Including User Cost					
First-Class Letters Single Piece		0.3921	0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared		0.3010	0.3063	0.2899	-0.0164
Nonautomated Presort	1,961.642	0.3263	0.3460	0.3355	-0.0106
Automated Basic Letters	656.213	0.3085	0.3159	0.2981	-0.0178
Automated Basic Flats	10.180	0.7693	0.7236	0.6945	-0.0291
Automated 3-Digit Letters	4,340.159	0.2884	0.2904	0.2702	-0.0201
Automated 5-Digit Letters	2,190.838	0.2893	0.2866	0.2717	-0.0149
Automated 3/5-Digit Flats	38.127	0.6976	0.7421	0.7063	-0.0359
Automated Carrier-Route Letters	482.584	0.3135	0.3209	0.3121	-0.0088
First-Class Stamped Cards		0.2000	0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards					
First-Class Single Piece Cards		0.2067	0.2161	0.2161	0.0000
Workshared Cards		0.1831	0.1896	0.1844	-0.0052
Nonautomated Presort	177.678	0.1876	0.1967	0.1935	-0.0032
Automated Basic	63.299	0.1758	0.1796	0.1721	-0.0074
Automated 3-Digit	135.603	0.1866	0.1911	0.1879	-0.0032
Automated 5-Digit	124.068	0.1771	0.1822	0.1721	-0.0101
Automated Carrier-Route	46.903	0.1820	0.1911	0.1882	-0.0029
Standard Single Piece		0.9740	1.0223	1.0223	0.0000
Standard Regular Letters		0.2184	0.2160	0.2229	0.0069
Standard Regular Flats		0.2880	0.3043	0.3160	0.0117
Nonautomated Basic Letters	570.774	0.2449	0.2459	0.2493	0.0034
Nonautomated Basic Nonletters	338.668	0.3684	0.3887	0.3933	0.0046
Nonautomated Presort Letters	972.419	0.2198	0.2196	0.2242	0.0046
Nonautomated Presort Nonletters	680.099	0.3442	0.3615	0.3697	0.0082
Automated Basic Letters	528.261	0.2105	0.2069	0.2192	0.0123
Automated Basic Flats	52.064	0.3366	0.3147	0.3315	0.0167
Automated 3-Digit Letters	1,478.976	0.2175	0.2193	0.2265	0.0071
Automated 5-Digit Letters	1,126.496	0.2089	0.1977	0.2056	0.0079
Automated 3/5-Digit Flats	1,983.321	0.2537	0.2700	0.2840	0.0140
Standard ECR Letters		0.1332	0.1423	0.1537	0.0114
Standard ECR Flats		0.1562	0.1551	0.1677	0.0126
Automated	302.099	0.1363	0.1458	0.1575	0.0117
Basic Letters	1,866.041	0.1377	0.1509	0.1625	0.0117
Basic Nonletters	2,341.886	0.1746	0.1734	0.1868	0.0134
High-Density Letters	61.473	0.1292	0.1263	0.1372	0.0109
High-Density Nonletters	248.190	0.1587	0.1579	0.1708	0.0129
Saturation Letters	654.207	0.1193	0.1176	0.1283	0.0106
Saturation Nonletters	2,025.905	0.1345	0.1335	0.1452	0.0116
First-Class Letter Worksharing Discount		0.0574	0.0601	0.0753	0.0153

(Revised 2/12/98)

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
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Fixed Weight Price Indices continued					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
Price Excluding User Cost (Dollars per Piece)					
First-Class Letters Single Piece			0.4032	0.4032	0.0000
First-Class PRM and QBRM Letters			0.3000	0.3000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.3414	0.3257	-0.0157
Automated Basic Letters			0.2823	0.2638	-0.0185
Automated Basic Flats			0.7005	0.6673	-0.0332
Automated 3-Digit Letters			0.2687	0.2437	-0.0250
Automated 5-Digit Letters			0.2555	0.2302	-0.0253
Automated 3/5-Digit Flats			0.7302	0.6932	-0.0370
Automated Carrier-Route Letters			0.2559	0.2303	-0.0256
First-Class Stamped Cards			0.2285	0.2285	0.0000
First-Class PRM and QBRM Cards			0.1800	0.1800	0.0000
First-Class Single Piece Cards			0.2161	0.2161	0.0000
Nonautomated Presort			0.1895	0.1795	-0.0100
Automated Basic			0.1755	0.1655	-0.0100
Automated 3-Digit			0.1694	0.1585	-0.0110
Automated 5-Digit			0.1582	0.1423	-0.0159
Automated Carrier-Route			0.1552	0.1393	-0.0159
Standard Single Piece			1.0223	1.0223	0.0000
Standard Regular					
Nonautomated Basic Letters			0.2459	0.2493	0.0034
Nonautomated Basic Nonletters			0.3887	0.3933	0.0046
Nonautomated Presort Letters			0.2017	0.2147	0.0130
Nonautomated Presort Nonletters			0.3253	0.3439	0.0186
Automated Basic Letters			0.1878	0.2009	0.0131
Automated Basic Flats			0.2978	0.3147	0.0168
Automated 3-Digit Letters			0.1721	0.1848	0.0126
Automated 5-Digit Letters			0.1517	0.1638	0.0121
Automated 3/5-Digit Flats			0.2304	0.2453	0.0149
Standard Regular Enhanced Carrier Route					
Automated			0.1458	0.1575	0.0117
Basic Letters			0.1509	0.1625	0.0117
Basic Nonletters			0.1734	0.1868	0.0134
High-Density Letters			0.1263	0.1372	0.0109
High-Density Nonletters			0.1579	0.1708	0.0129
Saturation Letters			0.1176	0.1283	0.0106
Saturation Nonletters			0.1335	0.1452	0.0116

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Fixed Weight Price Indices continued					<i>(Revised 2/12/98)</i>
	<u>Base Period</u>	<u>Base Period</u>		<u>Alternate Proposal</u>	<u>Alternate Proposal</u>
	<u>Volumes</u>	<u>Weights</u>	<u>Proposed R97-1</u>	<u>Proposed R97-1</u>	<u>Compared to</u>
					<u>Proposed R97-1</u>
					<u>Difference</u>
User Cost					
First-Class Letters Single Piece			0.0000	0.0000	0.0000
First-Class PRM and QBRM Letters			0.0000	0.0000	0.0000
First-Class Letters Workshared					
Nonautomated Presort			0.0046	0.0098	0.0051
Automated Basic Letters			0.0336	0.0343	0.0007
Automated Basic Flats			0.0231	0.0272	0.0041
Automated 3-Digit Letters			0.0216	0.0265	0.0049
Automated 5-Digit Letters			0.0311	0.0414	0.0104
Automated 3/5-Digit Flats			0.0119	0.0130	0.0011
Automated Carrier-Route Letters			0.0650	0.0818	0.0168
First-Class Stamped Cards			0.0000	0.0000	0.0000
First-Class PRM and QBRM Cards			0.0000	0.0000	0.0000
First-Class Single Piece Cards			0.0000	0.0000	0.0000
Nonautomated Presort			0.0072	0.0140	0.0068
Automated Basic			0.0041	0.0066	0.0025
Automated 3-Digit			0.0217	0.0294	0.0078
Automated 5-Digit			0.0240	0.0299	0.0059
Automated Carrier-Route			0.0359	0.0489	0.0130
Standard Single Piece			0.0000	0.0000	0.0000
Standard Regular					
Nonautomated Basic Letters			0.0000	0.0000	0.0000
Nonautomated Basic Nonletters			0.0000	0.0000	0.0000
Nonautomated Presort Letters			0.0179	0.0095	-0.0084
Nonautomated Presort Nonletters			0.0361	0.0258	-0.0103
Automated Basic Letters			0.0191	0.0183	-0.0008
Automated Basic Flats			0.0169	0.0168	-0.0001
Automated 3-Digit Letters			0.0472	0.0417	-0.0055
Automated 5-Digit Letters			0.0460	0.0418	-0.0042
Automated 3/5-Digit Flats			0.0397	0.0388	-0.0009
Standard Regular Enhanced Carrier Route					
Automated			0.0000	0.0000	0.0000
Basic Letters			0.0000	0.0000	0.0000
Basic Nonletters			0.0000	0.0000	0.0000
High-Density Letters			0.0000	0.0000	0.0000
High-Density Nonletters			0.0000	0.0000	0.0000
Saturation Letters			0.0000	0.0000	0.0000
Saturation Nonletters			0.0000	0.0000	0.0000

Exogenous and demographic variables are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7, LR-H-173.

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Key Rate to Revenue per Piece Adjustment					Alternate Proposal Compared to Proposed R97-1
	Base Period Volumes	Base Period Weights	Proposed R97-1	Alternate Proposal	Difference
First-Class Single Piece			1.003	1.003	0.000
First-Class Letters and Flats - Single Piece Additional Ounces			1.000	1.000	0.000
First-Class PRM and QBRM Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Piece Rate					
Nonautomated Presort			1.002	1.002	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			1.357	1.357	0.000
Automated 3-Digit Letters			1.000	1.000	0.000
Automated 5-Digit Letters			1.000	1.000	0.000
Automated 3/5-Digit Flats			1.000	1.000	0.000
Automated Carrier-Route Letters			1.000	1.000	0.000
First-Class Letters and Flats - Workshared per Pound Rate					
Nonautomated Presort			0.000	1.000	1.000
Automated Basic Letters			0.000	1.000	1.000
Automated Basic Flats			0.000	1.357	1.357
Automated 3-Digit Letters			0.000	1.000	1.000
Automated 5-Digit Letters			0.000	1.000	1.000
Automated 3/5-Digit Flats			0.000	1.000	1.000
Automated Carrier-Route Letters			0.000	1.000	1.000
First-Class Letters and Flats - Workshared Second Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Third Ounce			1.000	1.000	0.000
First-Class Letters and Flats - Workshared Ounces Above 3			1.000	1.000	0.000
First-Class Stamped Cards			1.000	1.000	0.000
First-Class PRM and QBRM Cards			1.000	1.000	0.000
First-Class Private Cards					
Single Piece Cards			1.027	1.027	0.000
Nonautomated Presort			1.000	1.000	0.000
Automated Basic			1.000	1.000	0.000
Automated 3-Digit			1.000	1.000	0.000
Automated 5-Digit			1.000	1.000	0.000
Automated Carrier-Route			1.000	1.000	0.000
Standard Single Piece			2.815	2.815	0.000
Standard Regular					
Nonautomated Basic Letters			1.000	1.000	0.000
Nonautomated Basic Nonletters			0.784	0.784	0.000
Nonautomated Presort Letters			0.958	0.958	0.000
Nonautomated Presort Nonletters			0.676	0.676	0.000
Automated Basic Letters			1.000	1.000	0.000
Automated Basic Flats			0.731	0.731	0.000
Automated 3-Digit Letters			0.957	0.957	0.000
Automated 5-Digit Letters			0.952	0.952	0.000
Automated 3/5-Digit Flats			0.630	0.630	0.000
Standard Regular - Second Ounce			1.000	1.000	0.000
Standard Regular - Third Ounce			1.000	1.000	0.000
Standard Regular - Ounces Above Third			1.000	1.000	0.000
Standard Regular Enhanced Carrier Route					
Automated			1.000	1.000	0.000
Basic Letters			1.000	1.000	0.000
Basic Nonletters			0.703	0.703	0.000
High-Density Letters			0.765	0.765	0.000
High-Density Nonletters			0.434	0.434	0.000
Saturation Letters			0.749	0.749	0.000
Saturation Nonletters			0.463	0.463	0.000
Standard Enhanced Carrier Route - Second Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Third Ounce			1.000	1.000	0.000
Standard Enhanced Carrier Route - Ounces Above Third			1.000	1.000	0.000

The key rate to revenue adjustment is the ratio of the key rate per piece (p. 13) to revenue per piece (p. 12).

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Key Rate to Fixed Weight Index Adjustment

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	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>	<u>Alternate Proposal Compared to Proposed R97-1 Difference</u>
First-Class Single Piece	0.997	0.997	0.000
First-Class PRM and QBRM Letters	1.000	1.000	0.000
First-Class Letters Workshared			
Nonautomated Presort	1.062	1.062	0.000
Automated Basic Letters	0.985	0.985	0.000
Automated Basic Flats	2.248	2.248	0.000
Automated 3-Digit Letters	0.972	0.972	0.000
Automated 5-Digit Letters	0.980	0.980	0.000
Automated 3/5-Digit Flats	2.504	2.504	0.000
Automated Carrier-Route Letters	0.993	0.993	0.000
First-Class Stamped Cards	1.088	1.088	0.000
First-Class PRM and QBRM Cards	1.000	1.000	0.000
First-Class Private Cards			
Single Piece Cards	1.029	1.029	0.000
Nonautomated Presort	0.997	0.997	0.000
Automated Basic	0.997	0.997	0.000
Automated 3-Digit	0.997	0.997	0.000
Automated 5-Digit	0.995	0.995	0.000
Automated Carrier-Route	0.995	0.995	0.000
Standard Single Piece	3.098	3.098	0.000
Standard Regular			
Nonautomated Basic Letters	0.856	0.856	0.000
Nonautomated Basic Nonletters	1.143	1.143	0.000
Nonautomated Presort Letters	0.810	0.810	0.000
Nonautomated Presort Nonletters	1.161	1.161	0.000
Automated Basic Letters	0.819	0.819	0.000
Automated Basic Flats	1.052	1.052	0.000
Automated 3-Digit Letters	0.789	0.789	0.000
Automated 5-Digit Letters	0.758	0.758	0.000
Automated 3/5-Digit Flats	0.932	0.932	0.000
Standard Regular Enhanced Carrier Route			
Automated	0.730	0.730	0.000
Basic Letters	0.730	0.730	0.000
Basic Nonletters	0.839	0.839	0.000
High-Density Letters	0.680	0.680	0.000
High-Density Nonletters	0.807	0.807	0.000
Saturation Letters	0.665	0.665	0.000
Saturation Nonletters	0.727	0.727	0.000
First-Class Letter Worksharing Discount	1.092	1.092	0.000

The key rate to fixed weight index adjustment is the ratio of the key rate per piece (p. 3) to fixed weight indices (p. 14).

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Volume and Share Adjustments				
	Volume Adjustment	Test Year 1998 After Rates Tolley Volume Forecast	Proposed R97-1 Unadjusted Volume	Alternate Proposal Unadjusted Volume
First-Class Letters Single Piece	0.47%	54,413.387	54,157.511	52,211.610
First-Class Letters Workshared	2.67%	41,033.182	39,967.926	42,743.626
First-Class Single Piece Cards	-1.04%	2,476.656	2,502.698	2,502.698
First-Class Presort Cards	3.58%	2,463.386	2,378.177	2,441.782
Standard Single Piece	1.21%	161.574	159.641	159.641
Standard Regular Letters	4.63%	24,306.837	23,231.926	22,859.784
Standard Regular Flats	2.57%	13,320.717	12,986.521	12,800.126
Standard ECR Letters	2.44%	8,712.800	8,505.278	8,121.390
Standard ECR Flats	5.33%	19,973.382	18,962.447	18,096.775

	Share Adjustment	Test Year 1998 After Rates Tolley Share Forecast	Proposed R97-1 Unadjusted Share	Alternate Proposal Unadjusted Share
First-Class Letters and Flats - Workshared				
Nonautomated Presort	0.35%	11.83%	11.79%	10.93%
Automated Basic Letters	3.68%	10.50%	10.13%	10.23%
Automated Basic Flats	8.97%	0.12%	0.11%	0.18%
Automated 3-Digit Letters	4.06%	50.88%	48.90%	50.51%
Automated 5-Digit Letters	4.99%	23.12%	22.02%	22.39%
Automated 3/5-Digit Flats	1.63%	0.57%	0.56%	0.58%
Automated Carrier-Route Letters	4.05%	2.97%	2.85%	6.43%
First-Class Private Cards				
Nonautomated Presort Cards	-1.67%	27.08%	27.54%	32.54%
Automated Basic Cards	2.64%	13.82%	13.47%	14.11%
Automated 3-Digit Cards	1.55%	33.55%	33.04%	37.42%
Automated 5-Digit Cards	2.53%	21.38%	20.85%	22.56%
Automated Carrier-Route Cards	-1.31%	4.16%	4.22%	8.26%
Standard Regular				
Nonautomated Presort Letters	6.13%	11.94%	11.25%	9.22%
Nonautomated Presort Nonletters	0.75%	15.58%	15.47%	13.24%
Automated Basic Letters	4.31%	12.90%	12.37%	12.33%
Automated Basic Flats	4.05%	1.95%	1.87%	1.87%
Automated 3-Digit Letters	7.40%	39.23%	36.53%	31.50%
Automated 5-Digit Letters	-2.24%	26.16%	26.76%	26.64%
Automated 3/5-Digit Flats	-0.10%	68.71%	68.78%	68.58%

Volume and share adjustments are the ratio of test year 1998 after rates Tolley volume or share forecast to the unadjusted volume or share forecast. Tolley volumes and shares are obtained from Direct Testimony of George S. Tolley in Docket No. 97-1, USPS-T-6, Exhibit USPS-6A, Tables 2 and 4 (revised 10/9/97).

Note: Total Standard ECR Letters have been adjusted down by 25% to account for the movement from ECR Basic Letters to Regular Automated 5-Digit Letters. Regular Automated 5-Digit Letters have been adjusted upwards correspondingly.

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Volume Forecasts				
	Coefficients	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Letters and Flats - Single Piece</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.189	0.354486	1.001568	1.001568
Cross Elasticities - Sum				
First-Class Single-Piece Cards	0.005	0.186856	1.000041	1.000041
Standard Regular	0.019	0.197477	0.999102	0.999701
Worksharing First-Class Letters Discoun	-0.164	0.051931	0.998636	0.962178
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.456	27.965	0.012421	0.012421
Transitory Income Lagged Four Quarters	0.135	0.825	-0.000375	-0.000375
Cross Volume Effects Lagged Four Quarters				
Standard Bulk Regular	0.040	24.525	0.002482	0.002482
Standard Bulk Nonprofit	0.013	5.353	0.000172	0.000172
Declining Worksharing User Costs				
Time Trend	2.371	81.5	0.168426	0.168426
Time Trend Squared	-0.331	257,185,184	-0.208612	-0.208612
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		53,738.949	53,738.949	53,738.949
Volume Adjustment		1.020923	1.020923	1.020923
MC96-3 Adjustment		1.000002	1.000002	1.000002
Net Trend		1.000000	1.000000	1.000000
<u>First-Class Letters Workshared</u>				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.289	0.272090	1.005386	1.021462
Cross Elasticities - Sum				
Workshared First-Class Cards	0.006	0.165549	0.999992	0.999824
Standard Regular	0.035	0.197477	0.998347	0.999449
Worksharing First-Class Letters Discoun	0.222	0.051931	1.001849	1.053577
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.405	27.965	0.011031	0.011031
Transitory Income	0.361	0.823	-0.003501	-0.003501
Declining Worksharing User Costs				
Time Trend	0.727	81.5	0.051643	0.051643
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		39,160.557	39,160.557	39,160.557
Volume Adjustment		0.944110	0.944110	0.944110
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
<u>First-Class Private Single Piece Cards</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.186856	0.992200	0.992200
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,437.427	2,437.427	2,437.427
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000013	1.000013	1.000013

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Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>First-Class Presort Cards</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.944	0.165549	1.001330	1.028111
Cross Elasticities - Sum				
First-Class Letters	0.197	0.354486	0.998368	0.998368
<i>Non-Rate Factors</i>				
Permanent Income (1992 Dollars)	0.699	27.965	0.019039	0.019039
Adult Population	1.000	182.771	0.013190	0.013190
Z-Variable		1.451180	0.003648	0.003648
Parameter 1	0.379			
Parameter 2	241.817			
Parameter 3	0.135	70.5	76.5	76.5
<i>Composite Factors</i>				
Base Volume		2,209.508	2,209.508	2,209.508
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000025	1.038722	1.038722
<u>Standard Single Piece</u>				
<i>Rates</i>				
Own-Price Elasticity - Sum	-0.654	0.880529	0.991982	0.991982
<i>Non-Rates</i>				
Permanent Income (1992 Dollars)	0.099	27.965	0.002697	0.002697
Transitory Income	0.220	0.823	-0.002134	-0.002134
Adult Population	1	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume		158.735	158.735	158.735
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		0.999986	0.999986	0.999986
Net Trend		1.000000	1.000000	1.000000
<u>Standard Regular</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.382			
Letters		0.197477	1.018219	1.006029
Flats		0.260348	0.992752	0.978503
Cross Elasticities - Sum				
First-Class Letters	0.130	0.354486	0.998923	0.998923
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.601	1.515	0.000263	0.000263
Price of Printing	-0.121	1.141	-0.000668	-0.000668
Price of Computer Equipment	-0.077	0.314	0.032254	0.032254
CPM, Newspaper Advertising	0.793	1.698	-0.016824	-0.016824
CPM, Television Advertising	0.151	1.679	-0.005327	-0.005327
Personal Consumption Expenditures	1.618	25.799	0.046580	0.046580
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		18,707.702	18,707.702	18,707.702
Base Volume - Flats		12,216.609	12,216.609	12,216.609
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000

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Volume Forecasts continued				
	<u>Coefficients</u>	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route</u>				
<i>Rate Factors</i>				
Own-Price Elasticity - Sum	-0.598			
Letters		0.120387	0.982163	0.937832
Flats		0.141174	1.026017	0.979177
<i>Non-Rate Factors</i>				
Real Price of Paper	-0.861	1.515	0.000376	0.000376
Price of Printing	-1.335	1.141	-0.007371	-0.007371
CPM, Newspaper Advertising	1.558	1.698	-0.033055	-0.033055
CPM, Radio Advertising	0.378	1.319	0.003317	0.003317
Personal Consumption Expenditures	0.851	25.799	0.024499	0.024499
Adult Population	1.000	182.771	0.013190	0.013190
<i>Composite Factors</i>				
Base Volume - Letters		11,535.279	11,535.279	11,535.279
Base Volume - Flats		18,463.927	18,463.927	18,463.927
Volume Adjustment		1.000000	1.000000	1.000000
MC96-3 Adjustment		1.000000	1.000000	1.000000
Net Trend		1.000000	1.000000	1.000000
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7				

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Share Forecasts			
	Base Values	Proposed R97-1	Alternate Proposal
First-Class Nonautomated Presort			
Unadjusted Share	15.57%	11.79%	10.93%
Share Adjusted for TYAR		11.83%	10.97%
Share Adjusted to Sum to Unity		11.83%	10.44%
Discount (Dollars per Piece)	0.025	0.020	0.030
Mu	0.0709	0.0765	0.0893
Sigma	0.0317	0.0317	0.0317
Mu not Including Opportunity Costs		0.0421	0.0421
Opportunity Cost		0.0018	0.0022
Average User Cost		0.0046	0.0098
First-Class Automated Basic Letters			
Unadjusted Share	10.21%	10.13%	10.23%
Share Adjusted for TYAR		10.50%	10.61%
Share Adjusted to Sum to Unity		10.50%	10.09%
Discount (Dollars per Piece)	0.059	0.055	0.069
Mu	0.0311	0.0339	0.0343
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0321	0.0321
Opportunity Cost		0.0022	0.0036
Average User Cost		0.0336	0.0343
First-Class Automated Basic Flats			
Unadjusted Share	0.11%	0.11%	0.18%
Share Adjusted for TYAR		0.12%	0.19%
Share Adjusted to Sum to Unity		0.12%	0.18%
Discount (Dollars per Piece)	0.030	0.030	0.040
Mu	0.0283	0.0286	0.0286
Sigma	0.0047	0.0047	0.0047
Mu not Including Opportunity Costs		0.0286	0.0286
Opportunity Cost		0.0000	0.0000
Average User Cost		0.0231	0.0272
First-Class Automated 3-Digit Letters			
Unadjusted Share	48.30%	48.90%	50.51%
Share Adjusted for TYAR		50.88%	52.56%
Share Adjusted to Sum to Unity		50.88%	50.00%
Discount (Dollars per Piece)	0.066	0.065	0.086
Mu	0.0258	0.0214	0.0253
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0212	0.0300
Average User Cost		0.0216	0.0265
First-Class Automated 5-Digit Letters			
Unadjusted Share	21.89%	22.02%	22.39%
Share Adjusted for TYAR		23.12%	23.51%
Share Adjusted to Sum to Unity		23.12%	22.36%
Discount (Dollars per Piece)	0.082	0.081	0.102
Mu	0.0352	0.0316	0.0418
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0110	0.0136
Average User Cost		0.0311	0.0414
First-Class Automated 3/5-Digit Flats			
Unadjusted Share	0.55%	0.56%	0.58%
Share Adjusted for TYAR		0.57%	0.59%
Share Adjusted to Sum to Unity		0.57%	0.56%
Discount (Dollars per Piece)	0.050	0.050	0.060
Mu	0.0125	0.0082	0.0082
Sigma	0.0144	0.0144	0.0144
Mu not Including Opportunity Costs		0.0082	0.0082
Opportunity Cost		0.0002	0.0003
Average User Cost		0.0119	0.0130

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

ABA/EEI/NAPM-T-1

Technical Appendix D

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Share Forecasts continued			
	Base Values	Proposed R97-1	Alternate Proposal
<u>First-Class Automated Carrier-Route Letters</u>			
Unadjusted Share	3.37%	2.85%	6.43%
Share Adjusted for TYAR		2.97%	6.69%
Share Adjusted to Sum to Unity		2.97%	6.37%
Discount (Dollars per Piece)	0.090	0.084	0.105
Mu	0.1083	0.1060	0.1060
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.1060	0.1060
Opportunity Cost		0.0005	0.0015
Average User Cost		0.0650	0.0818
<u>First-Class Nonautomated Presort Cards</u>			
Unadjusted Share	29.00%	27.54%	32.54%
Share Adjusted for TYAR		27.08%	31.99%
Share Adjusted to Sum to Unity		27.08%	27.64%
Discount (Dollars per Piece)	0.020	0.020	0.030
Mu	0.0291	0.0303	0.0363
Sigma	0.0152	0.0152	0.0152
Mu not Including Opportunity Costs		0.0146	0.0146
Opportunity Cost		0.0035	0.0052
Average User Cost		0.0072	0.0140
<u>First-Class Automated Basic Cards</u>			
Unadjusted Share	13.31%	13.47%	14.11%
Share Adjusted for TYAR		13.82%	14.48%
Share Adjusted to Sum to Unity		13.82%	12.51%
Discount (Dollars per Piece)	0.034	0.034	0.044
Mu	0.1190	0.1174	0.1211
Sigma	0.0952	0.0952	0.0952
Mu not Including Opportunity Costs		0.1079	0.1079
Opportunity Cost		0.0040	0.0053
Average User Cost		0.0041	0.0066
<u>First-Class Automated 3-Digit Cards</u>			
Unadjusted Share	30.17%	33.04%	37.42%
Share Adjusted for TYAR		33.55%	37.99%
Share Adjusted to Sum to Unity		33.55%	32.83%
Discount (Dollars per Piece)	0.041	0.040	0.051
Mu	0.0351	0.0311	0.0368
Sigma	0.0115	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0060	0.0081
Average User Cost		0.0217	0.0294
<u>First-Class Automated 5-Digit Cards</u>			
Unadjusted Share	21.52%	20.85%	22.56%
Share Adjusted for TYAR		21.38%	23.13%
Share Adjusted to Sum to Unity		21.38%	19.98%
Discount (Dollars per Piece)	0.057	0.051	0.067
Mu	0.0299	0.0275	0.0312
Sigma	0.0144	0.0115	0.0115
Mu not Including Opportunity Costs		0.0179	0.0179
Opportunity Cost		0.0056	0.0084
Average User Cost		0.0240	0.0299
<u>First-Class Automated Carrier-Route Cards</u>			
Unadjusted Share	6.00%	4.22%	8.26%
Share Adjusted for TYAR		4.16%	8.15%
Share Adjusted to Sum to Unity		4.16%	7.04%
Discount (Dollars per Piece)	0.060	0.054	0.070
Mu	0.0759	0.0777	0.0777
Sigma	0.0170	0.0170	0.0170
Mu not Including Opportunity Costs		0.0777	0.0777
Opportunity Cost		0.0008	0.0017
Average User Cost		0.0359	0.0489

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

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<u>Share Forecasts continued</u>			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Nonautomated Presort Letters</u>			
Unadjusted Share	15.17%	11.25%	9.22%
Share Adjusted for TYAR		11.94%	9.78%
Discount (Dollars per Piece)	0.047	0.038	0.026
Mu	0.1119	0.1060	0.0993
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0023	0.0015
Average User Cost		0.0179	0.0095
<u>Standard Regular Nonautomated Presort Nonletters</u>			
Unadjusted Share	19.86%	15.47%	13.24%
Share Adjusted for TYAR		15.58%	13.34%
Discount (Dollars per Piece)	0.081	0.060	0.048
Mu	0.1330	0.1190	0.1112
Sigma	0.0252	0.0252	0.0252
Mu not Including Opportunity Costs		0.0823	0.0823
Opportunity Cost		0.0037	0.0029
Average User Cost		0.0361	0.0258
<u>Standard Regular Automated Basic Letters</u>			
Unadjusted Share	14.85%	12.37%	12.33%
Share Adjusted for TYAR		12.90%	12.86%
Discount (Dollars per Piece)	0.073	0.058	0.046
Mu	0.0197	0.0190	0.0183
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0048	0.0034
Average User Cost		0.0191	0.0183
<u>Standard Regular Automated Basic Flats</u>			
Unadjusted Share	1.74%	1.87%	1.87%
Share Adjusted for TYAR		1.95%	1.94%
Discount (Dollars per Piece)	0.029	0.057	0.045
Mu	0.0164	0.0168	0.0168
Sigma	0.0049	0.0049	0.0049
Mu not Including Opportunity Costs		0.0168	0.0168
Opportunity Cost		0.0008	0.0005
Average User Cost		0.0169	0.0168
<u>Standard Regular Automated 3-Digit Letters</u>			
Unadjusted Share	46.54%	36.53%	31.50%
Share Adjusted for TYAR		39.23%	33.83%
Discount (Dollars per Piece)	0.081	0.069	0.057
Mu	0.0468	0.0492	0.0463
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0080	0.0048
Average User Cost		0.0472	0.0417
<u>Standard Regular Automated 5-Digit Letters</u>			
Unadjusted Share	14.29%	26.76%	26.64%
Share Adjusted for TYAR		26.16%	26.04%
Discount (Dollars per Piece)	0.101	0.087	0.075
Mu	0.0566	0.0462	0.0423
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0110	0.0088
Average User Cost		0.0460	0.0418
<u>Standard Regular Automated 3/5-Digit Flats</u>			
Unadjusted Share	68.84%	68.78%	68.58%
Share Adjusted for TYAR		68.71%	68.51%
Discount (Dollars per Piece)	0.117	0.093	0.081
Mu	0.0422	0.0397	0.0389
Sigma	0.0076	0.0076	0.0076
Mu not Including Opportunity Costs		0.0360	0.0360
Opportunity Cost		0.0367	0.0290
Average User Cost		0.0397	0.0388

Cost Coverage Model
First-Class Workshared Rates and Additional Ounce Charges at Formal Proposals
with Standard (A) Commercial Cost Coverage Increase

ABA/EEI/NAPM-T-1

Technical Appendix D

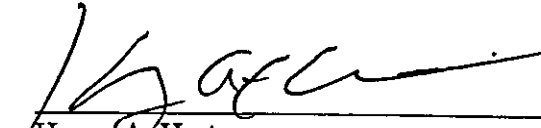
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<u>Share Forecasts continued</u>			
	<u>Base Values</u>	<u>Proposed R97-1</u>	<u>Alternate Proposal</u>
<u>Standard Regular Enhanced Carrier Route Test Year After-Rates Shares</u>			
Standard Regular ECR Automated		23.64%	23.64%
Standard Regular ECR Automated Basic Letters		36.43%	36.43%
Standard Regular ECR Automated Basic Nonletters		53.37%	53.37%
Standard Regular ECR High Density Letters		4.51%	4.51%
Standard Regular ECR High-Density Nonletters		5.78%	5.78%
Standard Regular ECR Saturation Letters		35.42%	35.42%
Standard Regular ECR Saturation Nonletters		40.85%	40.85%
Volume regressions are obtained from Direct Testimony of Thomas E. Thress in Docket No. R97-1, USPS-T-7			

CERTIFICATE OF SERVICE

I hereby certify that I have this 30th day of December, 1997, served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Henry A. Hart

210 King Street
Suite 200
Alexandria, Virginia 22314
(703) 838-5153

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1 CHAIRMAN GLEIMAN: Dr. Clifton, have you had an
2 opportunity to review the packet of designated written
3 cross-examination that was made available earlier?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, I'm going
10 to provide two copies of the designated written
11 cross-examination of Witness Clifton to the reporter and
12 direct that they be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of James A.
16 Clifton, ABA/EEI/NAPM-T-1, was
17 received into evidence and
18 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF AMERICAN BANKERS ASSOCIATION, EDISON
ELECTRIC INSTITUTE, AND NATIONAL ASSOCIATION OF
PRESORT MAILERS
WITNESS JAMES A. CLIFTON
(ABA,EEI&NAPM-T1)

Party

Interrogatories

Advertising Mail Marketing Association

AMMA/ABA,EEI&NAPM-T1-1-4
USPS/ABA,EEI&NAPM-T1-3-5, 8, 10, 12-17

Advo, Inc.

ADVO/ABA,EEI&NAPM-T1-1, 4-6
USPS/ABA,EEI&NAPM-T1-7-8, 10-16, 18, 20, 22,
34
VP-CW/ABA,EEI&NAPM-T1-5, 7

Nashua Photo Inc., District Photo Inc.,
Mystic Color Lab, and Seattle
Filmworks, Inc.

NDMS/ABA,EEI&NAPM-T1-1

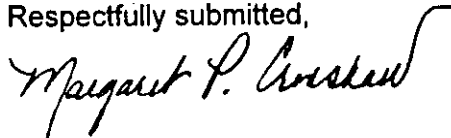
United States Postal Service

USPS/ABA,EEI&NAPM-T1-3-4, 26-27, 31-33,
35-40

Val-Pak Direct Marketing Services,
Val-Pak Dealers Association, and Carol
Wright

VP-CW/ABA,EEI&NAPM-T1-1-9

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-1.

On page 4 you state that unit attributable costs for First Class Presort have declined over the FY94-FY96 time period while they have increased for First Class single-piece and Standard A regular mail.

- (a) Please explain fully why you believe unit attributable costs for First Class Presort have fallen over that period. Specifically identify whether this is due to continued expansion and improvement in the USPS automation program, changes in the mix of rate categories within First Class Presort, or other changes.
- (b) Do you believe that the mix of letters, flats, and parcels within First Class Presort is similar to the mix of those shapes in First Class single piece, in Standard A Regular, and in Standard A ECR? Please explain your response, including your understanding of any differences in mix by shape.
- (c) Do you believe that the USPS automation program has reduced the costs for flats and parcels to the same extent as it has reduced the costs for letters? Please explain your response.
- (d) Do you believe that the USPS automation program has reduced the costs for First Class Presort non-carrier route letters to the same extent as it has reduced the costs for Standard A Regular non-carrier letters? Please explain your response.
- (e) Do you believe that the USPS automation program has reduced the costs for First Class Presort carrier route letters to the same extent as has reduced the costs for Standard A Regular carrier route letters? Please explain.
- (f) Do you believe that the USPS automation program has reduced the costs for First Class Presort non-carrier route flats to the same extent as it has reduced the costs for Standard A Regular non-carrier route flats? Please explain your response

RESPONSE

- a. See my answer to USPS/ABA/EEI/NAPM-T1-8
- b. My testimony focuses on the costs and appropriate discounts for First-Class workshared letters. I do not focus on the mix of letters, flats, and parcels within First-Class presort, First-Class single piece, Standard A Regular, and Standard A ECR.
- c. I do not know, but clearly since 41 billion pieces of First-Class workshared mail are projected, of which only 285 million are flats, flats' cost behavior cannot be driving the recent unit cost declines for workshared mail.
- d. I do not know as this would require analyzing a much longer time series of data than I have assembled for purposes of my testimony.
- e. See my answer to Id.
- f. I did not analyze the cost behavior of flats in my proposal for First-Class workshared discounts and rates, for reasons pointed out in "c." above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-4

Does your mail processing cost adjustment apply also to First Class presort flats? If so,

- (a) Please identify you modeled unit and total unit costs for those volumes.
- (b) Provide support for your modeled presort flat and parcel unit and total unit costs.

RESPONSE

a. & b. My testimony addresses the issues of costs and cost coverages for First-Class workshared letter mail. I did not do separate analyses for workshared First-Class flats or parcels.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-5

In Technical Appendix A.4, you calculate an elasticity of First Class workshared unit mail processing cost with respect to nonautomation share. This elasticity is used in Technical Appendix B.1 to derive one of your estimates of unit mail processing cost savings by presort rate category.

- (a) Please confirm that you spread this unit cost savings among all the workshared rate categories. If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of USPS.
- (b) Please confirm that the nonautomation share elasticity of cost includes mail processing cost savings which are in excess of the cost savings resulting solely from a change in the percentage mix of workshared rate categories (assuming no change in unit cost for each rate category). If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of the USPS.
- (c) Please explain the source of these FY94 to FY96 mail processing cost savings which exceed the cost savings resulting solely from a change in the percentage mix of workshared rate categories.
- (d) Why do you believe the unit presort mail processing cost savings that you estimate with your elasticity will continue through the test year?
- (e) Why do you believe the unit mail processing cost savings by presort rate category that you estimate with your elasticity will continue through the test year?

RESPONSE

a. The continuing decrease in the nonautomation share as forecast by USPS witness Thress is used, along with my elasticity, to estimate the likely effect of the decline in nonautomation share on unit costs for First-Class workshared mail. The lower First-Class unit costs are used in Technical Appendix B.1 to derive estimates of proportional and fixed costs for First-Class non-carrier route presort letters. These estimates of proportional and fixed costs are then applied to modeled costs by rate category within workshared First-class non-carrier route mail.

b. Not confirmed. The question appears to be based on the hypothesis that historic unit costs by type of First-Class workshared mail (i.e. separate unit costs for basic automation, 3-digit automation, 5-digit automation and all the other First-Class workshared types) are available. In the hypothetical world where such detailed data do exist, unit costs for First-Class workshared mail as a whole could be examined for changes related to changes in shares and for changes related to other factors. In my elasticity calculation, I had available and used the unit cost for First-Class workshared mail as a whole and the non-automation share. Given the data which are available, it is not possible to examine First-Class workshared unit costs changes by type of mail and as a whole and share changes which this question seems to imply can be done.

c. Please see my response to ADVO/ABAetal.-T1-1a.

d. I do not necessarily "believe" my elasticity, which would imply a -25% roll-forward factor for mail processing unit costs, will continue in TY1998. Indeed, I did not use this calculation in any formal way in my conservative -3.6% roll-forward factor. I do believe USPS witness Hatfield incorporated some such volume mix shift factor, in accordance with the volume mix shift found in the Thress and Tolley

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF ADVO, INC.**

testimonies, but that his estimated cost reducing impact on unit mail processing costs is way too small in light of my elasticity calculation.

e. My testimony does not indicate that such savings would necessarily continue into the TY. I simply accepted the Thress/Tolley mix shifts and calculated the impact of that shift on average unit mail processing costs for First-Class workshared mail as a whole in TY1998.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-6

In Technical Appendix B.2, you estimate an average unit mail processing cost savings of .3990 cents between base year and test year for First Class workshared volume.

- (a) Please confirm that this estimate is derived in Table 7 of page 16 (mail processing labor unit cost difference between FY94 and FY96). If this is incorrect, please explain how this estimate was derived.
- (b) Does this unit cost estimate reflect the current USPS proposal for mail processing volume-variability or does it reflect the traditional mail processing volume-variability of 100 percent?
- (c) Please confirm that you spread this historic unit cost savings among all the workshared rate categories. If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of the USPS.
- (d) Please explain the source of these historic mail processing unit cost savings which exceed those resulting solely from a change in the percentage mix of workshared rate categories.
- (e) Why do you believe the historic unit presort mail processing cost savings that you estimate will continue through the test year?
- (f) Why do you believe the historic unit mail processing cost savings by presort rate category that you estimate will continue through the test year?

RESPONSE

- a. Confirmed
- b. The specific unit cost saving figure of -0.3990 cents represents the historic change from FY94 to FY96, albeit for direct labor only. The historic data from which it was derived are based on the traditional mail processing volume-variability of 100 percent. I have used this historic change to estimate the most likely change in costs moving forward to the test year. I have applied this change to the USPS R97-1 unit costs to derive a more reasonable estimate of unit costs in the test year. The USPS R97-1 unit costs are based on the USPS proposal for mail processing volume-variability of less than 100 percent. However, the recent historic change in unit costs is one available guide to the changes in unit costs moving forward to the test year.
- c. The lower First-Class unit costs are used in Technical Appendix B.2 to derive estimates of proportional and fixed costs for First-Class non-carrier route presort letters. These estimates of proportional and fixed costs are then applied to the modeled costs by rate category within First-Class non-carrier route presort mail. The estimates of proportional and fixed costs are the same for each rate category of First-Class non-carrier route presort mail.
- d. Please see my response to ADVO/ABAetal.-T1-1a.
- e. Please see my response to USPS/ABA/EEI/NAPM-T1-8.
- f. Please see my response to ADVO/ABAetal.-T1-5e.

RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF AMMA

AMMA/ABA/EEI/NAPM-T-1-1

On page 10, lines 13-15, please provide the source for the statement "13.5% of mail processing unit costs for First-Class workshared mail that is identifiable in the CRA but not in its modelling...".

RESPONSE

Refer to USPS witness Hatfield testimony USPS-T-25 at 6, Figure III-A. Average modeled costs account for 3.7 cents of the CRA benchmark 4.6 cents developed in LR 106, of which 4.2 cents are the "proportional benchmark costs" that are modeled. The USPS modeling fails to explain one half a cent of these proportional benchmark costs, which equals 13.5% $[(4.2 \text{ cents} - 3.7 \text{ cents})/3.7 \text{ cents}]$.

RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF AMMA

AMMA/ABA/EEI/NAPM-T-1-2

The following questions refer to Technical Appendix A.4 and to page 18, lines 1-14 where the results of Technical Appendix A.4 are used in your testimony.

- a. Did you examine any methods other than the straight line projection for forecasting the test year unit mail processing cost? If the answer is yes, please provide the results of these examinations and all related workpapers.
- b. Please show the calculations necessary to use the elasticity of 0.4558 in Technical Appendix A.4 to obtain the unit mail processing cost of 2.0766 cents noted on line 12 of page 18.

RESPONSE

- a. An answer will be provided under separate cover.
- b. The calculations needed to obtain my test year mail processing cost of 2.0766 cents are shown on page 1 of Technical Appendix B.1 of my testimony. As shown there, USPS witness Tolley is projecting the nonautomation share of First-Class workshared mail to decline to 13.01% in test year 1998 before rates from 28.76% in Base Year 1996. This is a change of -54.76%. Applying the 0.4558 elasticity to the -54.76% produces a -24.96% change in mail processing unit cost due to the change in mail mix. This implies that mail processing unit costs should decline to 2.0766 cents in test year 1998.

RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF AMMA

AMMA/ABA/EEI/NAPM-T-1-3

The following questions refer to page 20, lines 18-22

- a. Please provide the source(s) and all supporting workpapers that derive the -3.6% roll forward factor.
- b. Please provide the source(s) and all supporting workpapers that derive the 7.8% change in CRA unit mail processing labor costs from FY1993 through FY1996.
- c. Please provide the source(s) and all supporting workpapers that derive the 25% decline in unit mail processing costs that the Postal Service volume mix shift implies.

RESPONSE

- a. An answer will be provided under separate cover.
- b. The 1993 to 1996 7.8% decline I note on page 20, line 21 of my testimony is the decline in the total unit attributable costs for First-Class workshared mail, not mail processing costs. See table below. The decline in mail processing costs alone for First-Class workshared mail is even more dramatic, with a decline of 8.6% in costs over this period. Similarly, for FY1994-1996, the 10.99% decline I cite is for total unit attributable costs and the correct figure for mail processing unit cost change is -13.5%.

Historical Attributable Costs, 1993-1996

	FY 1993	FY 1994	FY 1996	Percent Change	
				FY 93 to FY 1996	FY 94 to FY 1996
Total	11.5	11.9	10.6	-7.8%	-10.9%
Mail Processing*	3.5	3.7	3.2	-8.6%	-13.5%

Source USPS, Cost and Revenue Analysis, detailed cost segments and components Fiscal Years 1993, 1994, and 1996.

* Direct labor plus overhead cost (CS 3.1).

- c. The 25% decline in mail processing costs referred to on page 20 is calculated from the base year 1996 unit cost of 2.7674 cents per piece from USPS witness Alexandrovich and my projected test year 1998 unit cost of 2.0766 cents per piece. My projected test year 1998 figure is 25% lower than the base year 1996 figure. The method used to derive my test year 1998 figure is described in my answer to AMMA/ABA/EEI/NAPM-T-1-2b.

RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF AMMA

AMMA/ABA/EEI/NAPM-T-1-4

Please provide all workpapers detailing the inputs used and the calculations made to develop the figures in the "USPS" Proposal R97-1 Test Year 1998 Before Rates" shown in Table 2 on page 7.

RESPONSE

The first two panels of the table below show the raw data, total attributable/volume variable costs and volumes, used in the calculations in Table 2 on page 7 of my testimony. The third panel shows unit attributable/volume variable costs which are total attributable/volume variable costs divided by volume. Total attributable/volume variable costs and volumes are obtained from the USPS Cost and Revenue Analysis, detailed cost segments and components for fiscal years 1994 and 1996. The corresponding data for base year 1996 and test year 1998 before rates are taken from the testimony of USPS witnesses Alexandrovich and Patelunas.

	Fiscal Year 1994	Fiscal Year 1996	Base Year 1996	1998 Before Rates
Total Attributable/Volume Variable Cost (Million Dollars)				
First Class Mail				
Single Piece Let & Par.	12,873,040	14,125,944	12,046,631	12,506,161
Workshared Let.	4,168,999	4,127,907	3,804,528	4,069,545
Standard A Mail				
Regular	3,913,674	4,404,180	4,164,366	4,901,697
ECR	1,809,697	1,869,730	1,821,927	2,140,863
Volume (Million Pieces)				
First Class Mail				
Single Piece Let & Par.	55,049,377	54,150,759	54,150,759	54,394,309
Workshared	34,996,317	39,057,193	39,057,193	41,506,989
Standard A Mail				
Regular	27,514,165	30,150,508	30,150,508	34,359,008
ECR	29,811,177	29,180,737	29,180,737	32,424,240
Total Unit Attributable/Volume Variable Cost (Cents per Piece)				
First Class Mail				
Single Piece Let & Par.	23.385	26.086	22.246	22.992
Workshared	11.913	10.569	9.741	9.804
Standard A Mail				
Regular	14.224	14.607	13.812	14.266
ECR	6.071	6.407	6.244	6.603

**RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORY OF NDMS**

NDMS/ABA/EEI/NAPM-T1-1

In your testimony, at Technical Appendix C-2, you analyze a proposal which would increase Standard A Regular's cost coverage from 155 percent to 164 percent (*Id.*, p.2), and add 1.2 cents to the rates of all piece-rated Standard A Regular Automated and Presort rate categories (*Id.*, p.3). At Technical Appendix D, you analyze a proposal which would increase the Standard A Regular cost coverage from 155 percent to 166 percent (*Id.*, p. 2), which would add 0.4 cents to the rates of piece-rated Standard A Regular nonautomated basic letters and flats, and add 1.6 cents to the rates of all piece-rated Standard A Regular Automated and Presort rate categories (*Id.*, p. 3).

- a. Is it your testimony that the Commission should only consider economic efficiency in evaluating your proposals for Standard A mail?
- b. If not, what factor in 39 U.S.C. Sec. 3622(b) support your proposals to increase Standard A rates? Please explain your answer.
- c. Is it your view that mail preparation requirements for First-Class workshared mail and Standard A mail are comparably burdensome?

RESPONSE

- a. No. See my response to VP-CW/ABA/EEI/NAPM-T1-2, and also note how I define efficiency in my response to VP-CW/ABA/EEI/NAPM-T1-8.
- b. See my response to VP-CW/ABA/EEI/NAPM-T1-2.
- c. See my response to VP-CW/ABA/NNA-T1-1.b. However, I believe that the mail preparation requirements for workshared First-Class mail are still somewhat more burdensome than for Standard A mail, *e.g.*, the former has a 500 piece minimum compared to 200 for the latter; in addition, workshared First-Class mail is subject to 180 day move update requirements in DMM 51.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-3

Please confirm that the source for the mail processing costs in Table 14, on page 33 is Table 9, the column labeled *Historical Changes in Unit Costs FY95-FY96 Continue, Unit Mail Processing Cost*. If this is not confirmed please provide the specific citations showing the calculations of these costs.

RESPONSE

Confirmed. Please note that the caption above the two right most columns in Table 9 should read as follows: "Weighted Historical Changes in Unit Costs FY94-FY96 and FY95-FY96, Adjusted". See also my response to USPS/ABA&EEI&NAPM-T1-8 concerning development of my unit mail processing roll forward factors.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-4

Please provide the detailed calculations in hard copy and in electronic form of the Table 9 column costs *Historical Changes in Unit Costs FY95-FY96 Continue, Unit Mail Processing Cost* (The column for which Retail Presort is 6.3440 cents.) If this has already been supplied, please provide detailed citations to these calculations.

RESPONSE

The attachment provides the information requested. Please note that the caption above the two right most columns should read as follows: "Weighted Historical Changes in Unit Costs FY94-FY96 and FY95-FY96, Adjusted".

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Summary of First-Class Workshared Letters Mail Processing Costs

Unit Mail Processing Costs (Cents per Piece)

Letters

Retail Presort	6.3440
Automation	
Basic	4.6868
3-Digit	4.0074
5-Digit	2.6670
Carrier Route	2.0188

Source: Adjusted First-Class Workshared Unit Mail Processing Costs, p. 2.

Test Year First-Class Workshared Costs

Base Year 1996

First-Class Workshared Letters Mail Processing Direct Labor Costs

(Alexandrovich, Thousand Dollars)	1,080,864
Volume (Thousand Pieces)	39,057,193
Unit Cost (Cents per Piece)	2.7674

Historical Changes in Unit Costs FY95 to FY96

Level Change FY95 to FY96 (Cents per Piece)	-0.0710
Level Change FY94 to FY96 (Cents per Piece)	-0.1420
Projected TY98 Unit Cost (Cents per Piece)	2.6254
Change from BY96 (Cents per Piece)	-0.1420
Volume (Thousand Pieces)	41,506,989
Total Costs (Thousand Dollars)	1,089,719
Pre-Test Year Costs (Thousand Dollars)	1,096,329
Ratio to Escalate to Test Year	0.9940

Sources:

Fiscal Years 1994 and 1996: USPS, Cost and Revenue Analysis.

Base Year 1996: Direct Testimony of Joe Alexandrovich in Docket No. R97-1, USPS-T-5, Exhibit USPS-5C.

Pre-Test Year: LR-H-106.

**First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Adjusted First-Class Workshared Unit Mail Processing Costs**

CRA Costs by Shape

First-Class non-carrier route presort - proportional	3.7438
First-Class non-carrier route presort - fixed	0.3149
Total First-Class non-carrier route presort	4.0587
 Total First-Class carrier route presort	 2.0188

Sources:

Proportional: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Fixed: CRA Letter Mail Processing Unit Costs by Cost Pool, p. 4.

Carrier Route Presort: Test Year Volume Variable Costs with All Adjustments, p. 5.

Development of Adjustment Factors and Adjusted Costs

Nonautomation Presort Costs	<u>Model Cost</u>	<u>Weight</u>	<u>Weighted Cost</u>
	[1]	[2]	[3]
Mail in OCR Trays	5.2952	48.26%	2.5555
Mail in Non-OCR Trays	5.1958	7.73%	0.4019
Non-OCR Mail in Non-OCR Trays	6.6992	44.00%	2.9479
Total		100.00%	5.9053

	<u>Model Cost</u>	Test Year Before Rates <u>Volume</u>	<u>Total Cost</u>	Adjusted Unit <u>Cost</u>
All Non-Carrier Route Presort	[4]	[5]	[6]	[7]
Nonautomation	5.9053	4,994,580	\$29,494,644	6.3440
Automation Basic	4.2822	4,284,955	\$18,349,134	4.6868
Automation 3-Digit	3.6167	20,642,552	\$74,658,013	4.0074
Automation 5-Digit	2.3038	9,375,320	\$21,598,818	2.6670
Total	3.6669	39,297,407	\$144,100,609	

First-Class non-carrier route presort letter proportional adjustment	1.0210
First-Class non-carrier route presort letter fixed adjustment	0.3149

Sources:

[1]: Exhibit USPS-25A, p. 2, [1].

[2]: Exhibit USPS-25A, p. 2, [2].

[3]: [1] * [2].

[4]: Exhibit USPS-25A, p. 2, [5].

[5]: Exhibit USPS-25A, p. 2, [6].

[4] * [5].

[4] * Proportional Adjustment + Fixed Adjustment.

Proportional adjustment: CRA Cost by Shape proportional adjustment divided by non-CR model cost.

Fixed adjustment: CRA Cost by Shape fixed adjustment.

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	bcs/	0.9662	X		0.9662	
mods	express	0.0016	X		0.0016	
mods	fsm/	0.0032	X		0.0032	
mods	lsm/	0.0406	X		0.0406	
mods	manf	0.0069	X		0.0069	
mods	manl	0.4031	X		0.4031	
mods	manp	0.0015	X		0.0015	
mods	mecparc	0.0001	X		0.0001	
mods	ocr/	0.1452	X		0.1452	
mods	priority	0.0035	X		0.0035	
mods	spbs Oth	0.0019	X		0.0019	
mods	spbsPrio	0.0042	X		0.0042	
mods	BusReply	0.0034	X		0.0034	
mods	INTL	0.0048	X		0.0048	
mods	LD15	0.3988	X		0.3988	
mods	LD41	0.0286	X		0.0286	
mods	LD42	0.0005	X		0.0005	
mods	LD43	0.1401	X		0.1401	
mods	LD44	0.0600	X		0.0600	
mods	LD48 Exp	0.0000	X		0.0000	
mods	LD48 Oth	0.0077	X		0.0077	
mods	LD48_SSv	0.0026	X		0.0026	
mods	LD49	0.2171	X		0.2171	
mods	LD79	0.0616	X		0.0616	
mods	MAILGRAM	0.0000	X		0.0000	
mods	Registry	0.0000	X		0.0000	
mods	REWRAP	0.0006	X		0.0006	
mods	1Bulk pr	0.0120	X		0.0120	
mods	1CancMPP	0.0245	X		0.0245	
mods	1EEQMT	0.0118	X		0.0118	
mods	1MISC	0.0284	X		0.0284	

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
CRA Letter Mail Processing Unit Costs by Cost Pool

<u>Location</u>	<u>Cost Pool</u>	First-Class Noncarrier Route Presort	<u>Proportional</u>	<u>Fixed</u>	Proportional	<u>Fixed Costs</u>
		<u>Letters Cost</u>			<u>Costs</u>	
		[1]	[2]	[3]	[4]	[5]
mods	1OPbulk	0.0324	X		0.0324	
mods	1OPpref	0.2273	X		0.2273	
mods	1Platfrm	0.2232		X		0.2232
mods	1POUCHNG	0.1628	X		0.1628	
mods	1SackS_h	0.0297		X		0.0297
mods	1SackS_m	0.0032		X		0.0032
mods	1SCAN	0.0219	X		0.0219	
mods	1SUPPORT	0.0317	X		0.0317	
BMCs	nmo	0.0000		X		0.0000
BMCs	psm	0.0000		X		0.0000
BMCs	spb	0.0003		X		0.0003
BMCs	ssm	0.0000		X		0.0000
BMCs	Othr	0.0000		X		0.0000
BMCs	Pla	0.0008		X		0.0008
Non Mods		0.7446	92.27%	7.73%	0.6870	0.0576
Total		4.0587			3.7438	0.3149

Sources:

[1]: Test Year Mail Processing Volume Variable Labor and Piggybacked Costs by Cost Pool for Letter Shape by Category with All Adjustments, p. 3.

[2]: Cost pools that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[3]: Cost pools that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2).

[4]: Mail processing costs that have been treated as proportional (USPS-T-25, Appendix V, pp. 1-2).

[5]: Mail processing costs that have been treated as fixed (USPS-T-25, Appendix V, pp. 1-2).

The non mods costs have been split between proportional and fixed based on the split of the aggregate of all mods cost pools (USPS-T-25, Appendix V, pp. 1-2).

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Test Year Mail Processing Volume Variable Labor and Piggybacked Costs
by Cost Pool by Shape by Category With All Adjustments

COST POOL	Letters			Flats			Parcels	
	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. NCarr-Rt
mods bcs/	1.731	0.514	0.966	0.043	0.000	0.001	0.158	1.009
mods express	0.004	0.000	0.002	0.018	0.000	0.001	0.130	0.012
mods fsm/	0.047	0.005	0.003	12.678	0.000	6.407	0.501	0.007
mods lsm/	0.251	0.014	0.041	0.012	0.000	0.006	0.026	0.000
mods manf	0.036	0.008	0.007	3.789	0.000	2.548	0.615	0.005
mods manl	1.829	0.083	0.403	0.436	0.000	0.327	0.583	2.040
mods manp	0.005	0.000	0.001	0.024	0.000	0.056	0.787	0.001
mods mncparc	0.003	0.000	0.000	0.009	0.000	0.001	0.271	0.006
mods ocr/	0.559	0.090	0.145	0.046	0.000	0.000	0.159	0.001
mods priority	0.009	0.000	0.004	0.064	0.000	0.000	1.011	0.179
mods spbs Oth	0.012	0.015	0.002	0.179	0.000	0.126	6.538	0.430
mods spbsPrio	0.002	0.002	0.004	0.061	0.000	0.091	2.751	0.004
mods BusReply	0.018	0.000	0.003	0.044	0.000	0.000	0.128	0.004
mods INTL	0.026	0.000	0.005	0.017	0.000	0.000	0.226	0.001
mods LD15	1.817	0.179	0.399	0.149	0.000	0.000	-	-
mods LD41	0.038	0.013	0.029	0.000	0.000	0.000	0.000	-
mods LD42	0.002	0.000	0.000	0.010	0.000	0.000	0.001	0.000
mods LD43	0.390	0.092	0.140	1.102	0.000	0.713	2.768	0.988
mods LD44	0.145	0.015	0.060	0.280	0.000	0.098	0.246	0.003
mods LD48 Exp	0.000	0.000	0.000	0.003	0.000	0.000	0.002	0.000
mods LD48 Oth	0.018	0.004	0.008	0.040	0.000	0.022	0.100	0.019
mods LD48_Ssv	0.011	0.004	0.003	0.014	0.000	0.017	0.033	0.001
mods LD49	0.209	0.034	0.217	0.440	0.000	0.712	0.226	0.004
mods LD79	0.018	0.038	0.062	0.035	0.000	0.165	0.293	0.020
mods MAILGRAM	0.000	0.000	0.000	0.000	0.000	0.000	-	-
mods Registry	0.004	0.000	0.000	0.008	0.000	0.001	0.083	0.003
mods REWRAP	0.019	0.000	0.001	0.010	0.000	0.004	0.002	0.002
mods 1Bulk pr	0.004	0.038	0.012	0.027	0.000	0.026	0.022	0.007
mods 1CancMPP	0.570	0.011	0.025	1.117	0.000	0.423	3.350	2.332
mods 1EEQMT	0.037	0.009	0.012	0.097	0.000	0.055	0.450	0.129
mods 1MISC	0.118	0.023	0.028	0.333	0.000	0.160	0.823	0.173
mods 1OPbulk	0.099	0.000	0.032	0.458	0.000	0.612	1.579	0.103
mods 1OPpref	0.489	0.218	0.227	1.568	0.000	0.895	16.630	3.645
mods 1Platform	0.573	0.144	0.223	2.471	0.000	1.204	12.838	4.269
mods 1POUCHNG	0.402	0.119	0.163	1.513	0.000	0.436	10.826	1.910
mods 1SackS_h	0.048	0.000	0.030	0.239	0.000	0.152	0.777	-
mods 1SackS_m	0.024	0.004	0.003	0.071	0.000	0.321	0.400	0.007
mods 1SCAN	0.049	0.010	0.022	0.108	0.000	0.049	0.181	0.029
mods 1SUPPORT	0.115	0.015	0.032	0.341	0.000	0.183	0.752	0.197
BMCs nmo	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
BMCs psm	0.000	0.000	0.000	0.000	0.000	0.000	0.270	-
BMCs spb	0.001	0.035	0.000	0.000	0.000	0.000	0.296	-
BMCs ssm	0.001	0.010	0.000	0.000	0.000	0.000	0.000	-
BMCs Othr	0.003	0.000	0.000	0.034	0.000	0.000	0.109	-
BMCs Pla	0.001	0.004	0.001	0.004	0.000	0.000	0.134	-
Non Mods	2.006	0.268	0.745	4.535	0.000	2.576	7.003	1.810
Total Unit Cost	11.742	2.019	4.059	32.427	0.000	18.389	74.078	19.350
FY98 Volumes (in millions)	49,065	1,553	39,297	4,878	1	631	451	26
FY98 Unit Costs Before Reconciliation	11.902	2.036	4.093	32.869	0.000	18.543	75.088	19.512

Source: Piggyback factors, reconciliation and escalation factors (pp. 10 and 11) applied to FY96 costs with worksheet adjustments, premium pay, and other reductions (p. 6).

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape and Category with Worksheet Adjustments, Premium Pay Factors, and
Adjustments to Cost Pools Due to Cost Reductions and Other Programs

COST POOL		Letters			Flats			Parcels	
		1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st Cl. Single P	1st Pr. NCarr-Rt
mods	bcs/	401,736	6,590	190,413	990	0	3	337	210
mods	express	1,331	3	471	618	0	4	426	4
mods	fsn/	14,484	93	830	388,171	220	18,644	1,420	2
mods	lsm/	52,982	168	7,268	258	0	13	50	0
mods	marf	11,870	144	1,913	123,550	0	7,896	1,855	1
mods	marl	630,399	1,582	117,958	14,953	-	1,065	1,849	631
mods	manp	1,474	1	389	733	0	164	2,227	0
mods	mecparc	674	1	13	228	0	3	652	1
mods	ocr/	126,131	1,122	27,818	1,032	0	1	331	0
mods	priority	2,936	0	982	2,104	2	0	3,070	53
mods	spbs Oth	3,400	228	451	4,913	-	330	16,644	107
mods	spbsPrio	534	36	1,040	1,778	1	251	7,419	1
mods	BusReply	5,731	0	937	1,395	0	0	377	1
mods	INTL	7,310	-	1,175	471	-	-	592	0
mods	LD15	592,399	3,222	110,403	4,838	-	-	-	-
mods	LD41	8,777	161	5,581	0	-	-	0	-
mods	LD42	646	0	107	264	0	0	3	0
mods	LD43	128,631	1,674	39,207	36,084	229	2,219	8,392	292
mods	LD44	50,053	288	17,645	9,642	2	321	782	1
mods	LD48 Exp	118	1	14	94	1	0	6	0
mods	LD48 Oth	6,328	76	2,231	1,377	5	70	316	6
mods	LD48_Ssv	3,681	72	778	478	-	55	105	0
mods	LD49	66,189	595	58,283	13,839	0	2,127	656	1
mods	LD79	5,939	690	17,230	1,161	249	513	889	6
mods	MAILGRAM	-	-	-	-	-	-	-	-
mods	Registry	1,282	0	6	292	0	2	274	1
mods	REWRAP	6,272	1	170	333	0	14	7	1
mods	1Bulk pr	1,272	637	3,077	812	1	73	60	2
mods	1CancMPP	125,748	134	4,592	24,495	0	882	6,802	462
mods	1EEQMT	11,269	143	3,065	2,928	30	157	1,264	35
mods	1MISC	39,615	420	8,099	11,129	12	509	2,547	52
mods	1OPbulk	29,178	-	8,137	13,458	-	1,708	4,292	27
mods	1OPpref	143,743	3,526	56,685	45,786	-	2,485	44,938	961
mods	1Platfrm	146,797	2,038	48,592	62,973	284	2,917	30,285	983
mods	1POUCHNG	114,295	1,866	39,300	42,774	361	1,172	28,319	488
mods	1SackS_h	12,862	-	6,710	6,324	-	381	1,901	-
mods	1SackS_m	5,916	52	668	1,718	200	738	895	2
mods	1SCAN	14,663	167	5,551	3,206	3	138	496	8
mods	1SUPPORT	40,924	299	9,590	12,086	13	616	2,464	63
BMCs	numo	0	2	0	1	-	-	0	-
BMCs	psm	-	-	-	-	-	-	580	-
BMCs	spb	213	554	75	2	-	-	773	-
BMCs	sszn	109	112	0	6	-	-	0	-
BMCs	Othr	828	-	-	935	-	-	281	-
BMCs	Pla	145	43	160	88	-	-	274	-
Non Mods		656,068	4,835	206,780	147,432	371	7,961	21,075	532
Total		3,474,953	31,580	1,004,397	985,745	1,983	53,433	195,924	4,936

Source: Premium pay and cost reduction and other programs adjustment ratios for each cost pool (pp. 10 and 11) applied to FY96 Costs with worksharing adjustments (p. 7).

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
FY96 Mail Processing Volume Variable Costs by Cost Pool
by Shape by Category with Cost Segment 3 Worksheet Adjustments

COST POOL	Letters			Flats			Parcels	
	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.	1st Pr.	1st Cl.	1st Pr.
	Single P	Carr-Rt	NCarr-Rt	Single P	Carr-Rt	NCarr-Rt	Single P	NCarr-Rt
mods bcs/	342,047	5,663	163,630	843	0	3	287	181
mods express	1,305	3	466	606	0	4	417	4
mods fsm/	13,319	87	770	356,956	205	17,304	1,306	2
mods fsm/	493,334	1,580	68,308	2,406	1	119	461	1
mods manf	15,220	187	2,476	158,417	0	10,218	2,379	2
mods manl	617,818	1,565	116,680	14,655	-	1,053	1,812	625
mods manp	1,445	1	385	718	0	162	2,183	0
mods mecparc	660	1	13	223	0	3	639	1
mods ocr/	118,325	1,062	26,339	968	0	1	310	0
mods priority	2,877	0	971	2,062	2	0	3,009	52
mods spbs Oth	2,715	184	364	3,923	-	266	13,290	86
mods spbsPrio	523	35	1,029	1,742	1	248	7,271	1
mods BusReply	5,617	0	927	1,367	0	0	369	1
mods INTL	7,164	-	1,162	462	-	-	581	0
mods LD15	275,408	1,512	51,804	2,249	-	-	-	-
mods LD41	8,602	160	5,520	0	-	-	0	-
mods LD42	634	0	106	259	0	0	3	0
mods LD43	126,064	1,656	38,782	35,364	227	2,195	8,224	289
mods LD44	49,054	285	17,454	9,449	2	317	766	1
mods LD48 Exp	116	1	14	92	1	0	6	0
mods LD48 Oth	6,202	75	2,207	1,349	5	69	310	6
mods LD48_Ssv	3,608	71	770	468	-	55	103	0
mods LD49	66,753	606	59,328	13,957	0	2,165	661	1
mods LD79	5,820	683	17,044	1,138	246	508	871	6
mods MAILGRAM	-	-	-	-	-	-	-	-
mods Registry	1,256	0	6	286	0	2	268	1
mods REWRAP	6,147	1	168	326	0	13	7	1
mods 1Bulk pr	1,246	630	3,044	795	1	73	59	2
mods 1CancMPP	126,475	136	4,662	24,637	0	895	6,841	469
mods 1EEQMT	11,044	142	3,032	2,869	30	156	1,238	35
mods 1MISC	38,824	416	8,011	10,906	12	503	2,496	52
mods 1OPbulk	32,176	-	9,057	14,841	-	1,901	4,733	30
mods 1OPpref	148,040	3,665	58,924	47,154	-	2,583	46,281	999
mods 1Platfrm	143,867	2,015	48,066	61,716	281	2,885	29,680	972
mods 1POUCHNG	112,014	1,846	38,874	41,920	357	1,160	27,754	482
mods 1SackS_h	12,605	-	6,637	6,198	-	377	1,864	-
mods 1SackS_m	5,798	51	661	1,683	197	730	877	2
mods 1SCAN	14,371	165	5,491	3,142	3	137	486	8
mods 1SUPPORT	40,107	296	9,487	11,845	13	609	2,415	62
BMCs rmo _4/	0	2	0	1	-	-	0	-
BMCs psm _4/	-	-	-	-	-	-	569	-
BMCs spb _4/	208	548	74	2	-	-	757	-
BMCs ssm _4/	107	111	0	6	-	-	0	-
BMCs Othr _4/	812	-	-	916	-	-	275	-
BMCs Pla _4/	146	44	163	88	-	-	277	-
Non Moc _5/	642,975	4,783	204,539	144,490	367	7,875	20,654	526
Total	3,502,850	30,269	977,442	983,496	1,949	54,590	192,791	4,900

Source: Worksharing adjustments (p. 9) applied to FY96 volume variable costs (p. 8).

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
FY96 Mail Processing Volume Variable Costs by Cost Pool

COST POOL	Letters			Flats			Parcels	
	1st CL Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st CL Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt	1st CL Single P	1st Pr. NCarr-Rt
mods bcs/	341,122	5,648	163,212	840	0	3	286	180
mods express	1,301	3	465	604	0	4	416	4
mods fsm/	13,283	87	769	355,991	204	17,260	1,302	2
mods lsm/	492,000	1,576	68,134	2,399	1	118	460	1
mods manf	15,179	186	2,469	157,989	0	10,192	2,372	2
mods manl	616,148	1,561	116,382	14,615	-	1,051	1,808	623
mods manp	1,441	1	384	716	0	162	2,177	0
mods mecparc	658	1	13	223	0	3	637	1
mods ocr/	118,005	1,060	26,272	965	0	1	309	0
mods priority	2,870	0	968	2,057	2	0	3,001	52
mods spbs Oth	2,708	184	363	3,912	-	265	13,254	86
mods spbsPrio	522	35	1,026	1,738	1	248	7,251	1
mods BusReply	5,602	0	925	1,364	0	0	368	1
mods INTL	7,145	-	1,159	460	-	-	579	0
mods LD15	274,663	1,508	51,672	2,243	-	-	-	-
mods LD41	8,579	159	5,506	0	-	-	0	-
mods LD42	632	0	106	258	0	0	3	0
mods LD43	125,723	1,652	38,683	35,268	226	2,189	8,202	288
mods LD44	48,921	285	17,409	9,424	2	317	764	1
mods LD48 Exp	116	1	14	92	1	0	6	0
mods LD48 Oth	6,185	75	2,201	1,346	5	69	309	6
mods LD48_SSV	3,598	71	768	467	-	55	103	0
mods LD49	66,573	604	59,176	13,919	0	2,159	660	1
mods LD79	5,804	681	17,000	1,135	245	506	869	6
mods MAILGRAM	-	-	-	-	-	-	-	-
mods Registry	1,253	0	6	286	0	2	268	1
mods REWRAP	6,131	1	167	325	0	13	7	1
mods 1Bulk pr	1,243	629	3,036	793	1	72	59	2
mods 1CancMPP	126,133	135	4,650	24,570	0	893	6,823	468
mods 1EEQMT	11,014	141	3,024	2,862	30	155	1,235	35
mods 1MISC	38,719	414	7,991	10,877	12	502	2,489	51
mods 1OPbulk	32,089	-	9,034	14,801	-	1,897	4,720	30
mods 1OPpref	147,640	3,656	58,773	47,027	-	2,576	46,156	997
mods 1Platfrm	143,478	2,010	47,943	61,549	280	2,878	29,600	970
mods 1POUCHNG	111,711	1,841	38,775	41,807	356	1,157	27,679	481
mods 1SackS_h	12,571	-	6,620	6,182	-	376	1,859	-
mods 1SackS_m	5,783	51	659	1,679	197	728	875	2
mods 1SCAN	14,332	165	5,477	3,133	3	136	484	8
mods 1SUPPORT	39,999	295	9,462	11,813	13	608	2,408	62
BMCs nmo	0	2	0	1	-	-	0	-
BMCs psm	-	-	-	-	-	-	553	-
BMCs spb	203	533	72	2	-	-	736	-
BMCs ssm	104	108	0	6	-	-	0	-
BMCs Othr	789	-	-	891	-	-	268	-
BMCs Pla	142	43	158	86	-	-	269	-
Non Mods	632,718	4,707	201,306	142,185	361	7,750	20,325	518
Total	3,484,829	30,111	972,230	978,897	1,939	54,346	191,949	4,880

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. II-1, III-1, and IV-1.

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Cost Segment 3 Worksheet Adjustments*

BMC Mail Processing Labor Costs

Line No.	(1) BMC Costs (excl clocking in & out)	(2) BMC clocking in & out	(3) BMC Costs Total	(4) BMC ratio Ratio
1	616,383	15,816	632,199	1.025659371
Source:	page 2, C3	page 2, C4	C1 + C2	C3/C1

Non-MODS Mail Processing Costs

	(1) Non-MODS Costs (excl clocking in & out)	(2) Non-MODS clocking in & out	(3) Non-MODS Total Costs	(4) Non-MODS Costs Ratio
2	2,324,491	31,295	2,355,786	1.013463162
Source:	page 2, C5	page 2, C6	C1 + C2	C3/C1

Lump Sum Adjustment for Mail Processing Labor Costs

	(1) Total Labor Cost w/o Lump Sum	(2) Lump Sum	(3) Total	(4) Ratio
3	13,213,586	33,826	13,247,412	1.002559941
Source:	page 4, C7	page 4, C8	C1 + C2	C3/C1

Normal Feature & Special Delivery Adjustment

First-Class Mail Categories:		(1) Before Adj.	(2) Adjustmt.	(3) Total	(4) Ratio
4	Letters and Sealed Parcels	4,678,429	705	4,679,134	1.000150692
5	Presort Letters and Sealed Parcels	1,069,149	1	1,069,150	1.000000935
6	Presort Cards	35,957		35,957	1
Source:		page 3, C2 times C4L3 of this page	page 3, C4 + C10	C1 + C2	C3/C1

* All page references are to Witness Alexandrovich, USPS-T-5, WP B-3,
W/S 3.1.1.

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-1

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Adjustment Ratios for Premium Pay, Mail Processing Piggyback,
Roll Forward, Reconciliation, and Shape/Presort Mix

	Letters		
	1st Cl. Single P	1st Pr. Carr-Rt	1st Pr. NCarr-Rt
Unadjusted Base Year	4,679,134		1,069,150
With Premium Pay	4,774,417		1,080,864
Prem Pay Adjustment	1.020363383	1.010956367	1.010956367
TY98 Mail Processing Direct Labor Cost	4,899,428		1,089,719
Mail Processing Piggyback Factor	1.56702		1.6035
TY98 Cost * Piggyback	7,677,502		1,747,365
Spreadsheet Pre-Test Year Costs	4,656,621	33,563	1,096,329
Rollforward Ratio to Test Year	1.052142378	0.99397151	0.99397151
TY98 Unit Costs Reconciliation Target	7,677,502		1,747,365
TY98 Unit Costs Before Reconciliation	7,782,179	31,606	1,730,360
TY98 Reconciliation Ratio	0.98655		0.99171

Shape/Presort Adjustment to Reflect the Mail Mix Adjustment

		Percent of Costs from Mail Mix	Pre-Test Year Costs	Percent of Costs from Pre-Test Year	Shape/ Presort Adjustment Ratios
Non-Carrier Route	Letter	91.00%	1,004,397	91.61%	0.993
	Flat	6.98%	53,433	4.87%	1.432
	Parcel	0.28%	4,936	0.45%	0.632
Carrier Route	Letter	1.74%	31,580	2.88%	0.604
	Flat		1,983	0.18%	0.000
All	Total	100.00%	1,096,329	100.00%	

Source:

TY98 Mail Processing Direct Labor Cost: Summary of First-Class Workshared Letter Mail Processing Costs.

Other Data: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-3.

First-Class Workshared Mail Processing Unit Cost Methodology
Weighted Historical Changes in Unit Costs,
FY94-FY96 and FY95-FY96, Adjusted
Adjustment Ratio for Cost Reductions & Other Programs and Piggyback Factors by Cost Pool

<u>COST POOL</u>		<u>Cost Reductions & Other Programs</u>	<u>Escalated Volume Variable Costs</u>	<u>Adjustment Ratio</u>	<u>Mail Processing Operation Specific Piggyback Factors</u>
mods	bcs/	106,016	701,786	1.151066261	2.0366
mods	express			1	1.3314
mods	fsm/	48,479	737,374	1.065745839	1.5347
mods	lsm/	(645,753)	721,715	0.105253011	2.2404
mods	manf	(114,519)	485,950	0.764339432	1.4412
mods	manl			1	1.3716
mods	manp			1	1.5361
mods	mecparc			1	1.8078
mods	ocr/	8,584	192,065	1.044694418	2.0954
mods	priority			1	1.4326
mods	spbs Oth	20,237	89,010	1.227361215	1.7085
mods	spbsPrio			1	1.6129
mods	BusReply			1	1.4770
mods	INTL			1	1.6572
mods	LD15	463,212	418,037	2.108064075	1.4499
mods	LD41			1	2.0535
mods	LD42			1	1.7317
mods	LD43			1	1.4347
mods	LD44			1	1.3659
mods	LD48 Exp			1	1.3135
mods	LD48 Oth			1	1.3773
mods	LD48_Ssv			1	1.3629
mods	LD49	(7,070)	250,265	0.971749985	1.4954
mods	LD79			1	1.4356
mods	MAILGRAM			1	1.3724
mods	Registry			1	1.3130
mods	REWRAP			1	1.4314
mods	1Bulk pr			1	1.5609
mods	1CancMPP	(5,248)	205,074	0.974411667	2.1420
mods	1EEQMT			1	1.5490
mods	1MISC			1	1.4054
mods	1OPbulk	(28,317)	254,460	0.888718035	1.6004
mods	1OPpref	(28,317)	584,956	0.951591551	1.6095
mods	1Platfrm			1	1.8438
mods	1POUCHNG			1	1.6626
mods	1SackS_h			1	1.7763
mods	1SackS_m			1	1.9417
mods	1SCAN			1	1.5869
mods	1SUPPORT			1	1.3267
BMCs	rmo			1	1.6468
BMCs	psm			1	2.0267
BMCs	spb			1	1.6670
BMCs	ssm			1	2.4141
BMCs	Othr			1	1.6866
BMCs	Pla	(2,983)	104,589	0.971478864	2.1252
Non Mods				1	1.4453

Total (185,677) 4,745,281

Source: LR-H-106 in Docket No. 97-1 "Mail Processing Unit Costs by Shape," p. VI-2.

**RESPONSES OF ABA/EEL/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-5

Please confirm that the Unit Mail Processing Cost column in Table 9 under the heading *Changes in Unit Costs Based on USPS Test-Year Volume Mixed Shifts* are (sic) derived in your Technical Appendix B.1. If this is not confirmed, please provide the specific citations showing the calculation of these costs.

RESPONSE

Confirmed.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-7

In your Technical Appendix A.2, you cite LR-MCR-76 as the source for the 2.69 percent of forwarded mail and the \$965.991 million cost of forwarding. For these estimates, please provide the detailed page citations in LR-MCR-76 and all other sources, and any additional calculations associated with deriving these estimates. Please provide the source and explain the calculation of the *Cost per piece of Forwarded Mail* which you show as \$0.390.

RESPONSE

See Docket No. MC95-1 Tr. 5/1354 in which USPS witness Pajunas testified that "2.69% of all First-Class Mail was forwarded in FY1993." See also *Id.* at Tr. 5/1358. For your convenience, a copy of those responses, which have been admitted into the record in this proceeding by Presiding Officer's Ruling R97-1/68, is attached.

The cost per piece of forwarded mail is derived by dividing the cost of forwarding (\$965.991 million) by the volume of First-Class Mail forwarded (2,479). The data are shown on Technical Appendix A.2.

U. S. POSTAL SERVICE WITNESS ANTHONY M. PAJUNAS
RESPONSE TO NATIONAL ASSOCIATION OF PRESORT MAILERS

1354

12651

NAPM/USPS-T2-31. What was the percent of first class letter mail in fiscal year 1993 which was forwarded? What was the number of first class letter mail pieces forwarded in 1994?

RESPONSE:

As indicated in the study titled *Volumes, Characteristics, and Costs of Processing Undeliverable as Addressed Mail*, LR-MCR-76, 2.69% of all First-Class Mail was forwarded in FY 1993. Similar data is not available for FY 1994.

usps/

ATTACHMENT TO ABA/EEI/NAPM-T1-7

U. S. POSTAL SERVICE WITNESS ANTHONY M. PAJUNAS
RESPONSE TO NATIONAL ASSOCIATION OF PRESORT MAILERS

1358

12652

NAPM/USPS-TZ-35. What was the total USPS cost of forwarding mail in FY 93?
How much of this costs is attributable to each class of mail?

RESPONSE:

The following costs of forwarding mail in FY 1993 come from the study titled
*Volumes, Characteristics, and Costs of Processing Undeliverable as Addressed
Mail*, LR-MCR-76.

Total Cost of forwarding mail in 1993	\$1,073,323,000
First-Class	865,991,000
Second-Class	53,666,000
Third-Class	47,933,000
Fourth-Class	5,733,000

The figures only reflect actual cost of forwarding and not the costs of other activities, such as processing the Change of Address card, fulfilling address correction requests and other activities related but not specific to forwarding costs.

I do not know how, or if, these costs are attributed to classes of mail.

ATTACHMENT TO USPS/ABA/EEI/NAPM-T1-7

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-8

At page 20, lines 18-19 you indicate that you have chosen a modest 3.6% decline as a rollforward factor to apply to the Hatfield model. Please explain the calculation for this 3.6% figure.

(a) What is the basis for this percentage change?

(b) Are the results of applying the 3.6% decline as a rollforward factor to the Hatfield model provided in your testimony or workpapers? If so, please indicate specifically where and cite the underlying calculations or supply the underlying calculations, if they are not contained in your workpapers or testimony.

RESPONSE

The editing process failed, causing some confusion concerning the procedure I used to determine a -3.6% rollforward factor for mail processing costs. While that procedure is correctly summarized on lines 1-5 of page 22, the sentence starting on line 19 and ending on line 21 of page 20 of my testimony should have been deleted in the final draft.

The starting point for my analysis was a look at rollforward factors in light of recent mail processing unit cost changes for First-Class letter mail and Standard A mail. The zero percent rollforward factor for Standard A ECR mail was perfectly correlated with recent CRA behavior. The Postal Service's proposed 4.1% rollforward factor for Standard A Regular is not unsupportable, notwithstanding the recent CRA results. On the other hand, Postal Service's proposed 7.1% rollforward factor for First-Class workshared mail is not justifiable (or appropriate), particularly given the 13.8% decline in unit mail processing costs for such mail, let alone the smaller rollforward factor Postal Service employed for Standard A Regular mail. Furthermore, the Postal Service's roll forward factor is an identical 0.2 cent increase assigned to First-Class single piece, as well as First-Class and Standard A Regular workshared mail. This gave me pause as the processing methods are not the same as between the workshared and non-workshared mail.

The dramatic drop in recent mail processing costs for First-Class workshared mail prompted me to go beyond the CRA numbers, e.g., to look at the source(s) of the dynamic, whether a continuation into 1997 or the test year 1998 was likely and whether Postal Service witness Hatfield had accommodated such dynamics in his +7.1% roll-forward factor. Before starting this analysis, I was aware that the gradual phase-in of mail reclassification worksharing requirements stemming from the Commission's decision in MC95-1 was causing falling unit cost pressure in delivery costs beyond the base year, and this phase-in was a qualitative factor I looked at insofar as its effect on mail

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

processing costs as well. My conclusion based on discussions with the presort bureau community during the preparation of my analysis was that the new worksharing requirements implemented on July 1, 1996 were still being implemented in calendar year 1997 (and would therefore have a downward impact on TY1998 costs). The Postal Service did not allow any testing time for the new requirements, and when implemented all at once, there were software program crashes everywhere throughout the presort bureau community, as well as problems with the vendors of the new software. These problems are being worked out of the system gradually and, therefore, the cost savings from the new worksharing requirements are only being felt gradually in postal FY1997 and 1998. USPS witness Hatfield did not account for this effect in arriving at his +7.1% rollforward factor.

Significantly, I also looked at the dramatic shifts toward (lower cost) automation and away from (higher cost) non-automation mail volumes ongoing in First Class workshared mail in recent years. The discounts emerging from MC95-1 have probably contributed to the ongoing momentum in this shift, though the trend was evident before that case. As I discuss in my testimony USPS witness Hatfield may have attempted to incorporate this shift into his rollforward factor, but if so, he greatly underestimated its impact on TY 1998. Using my elasticity based on the recent relationship between unit mail processing cost declines and volume shifts from non-automation to automation, I projected a 25% decline in TY 1998 unit mail processing costs for First-Class workshared mail compared to BY1996.

I also examined unit cost changes in mail processing costs for First-Class workshared mail for a variety of time periods using the greatest available detail from the CRA. For FY94-FY96, mail processing direct labor costs from cost segment 3.1 fell by 13.9% , while they fell by 2.8% for the most recently available FY95-FY96 time period. When I included mail processing overhead as well as direct labor from cost segment 3.1, the FY94-96 unit cost decline was 12% while the FY95-96 unit cost decline was 1.1%. As noted on page 22, lines 4-5 of my testimony, in developing my -3.6% formal rollforward factor, I weighted the FY95-96 figures more than the other factors. Specifically, the procedure I used was a one quarter and three quarters set of weights:

$$.75(-1.1\%) + .25(-12\%) = -3.8\% \text{ roll-forward}$$

I made a marginal (+0.2%) adjustment to that figure based on a qualitative consideration that, by the start of TY1998 the new software associated with reclassification was working well, with no further cost savings impacting USPS.

I deemed the -3.6% rollforward factor to be conservative for the following reasons: I used a -1.1% factor for 75% of my procedure, thereby heavily discounting the direct labor only costs, which I believe provide more reliable measures of mail processing unit cost changes; in addition, I also heavily discounted the FY94-96 CRA dynamics and did

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

not formally use the -25% volume shift factor.

While I was aware of the FY95-FY96 total unit attributable cost decline of -3.6% for First-Class workshared mail (as well as the USPS proposed +3.6% total unit volume variable cost increase from BY1996 to TY1998 for First-Class single piece and Standard A Regular mail) when I arrived at my -3.6% rollforward factor for unit mail processing costs for First-Class workshared mail, the total unit attributable cost decline did not play any conscious roll in my calculations. I was aware, as I stated in my testimony, that the source of the overall -3.6% decline was concentrated in mail processing and delivery.

The main conclusion I reached does not hinge on the number "-3.6%", but on the fact that, based on historical data and data underlying Postal Service's filing in this case, no quantitative or qualitative rollforward factor considered could reasonably result in a positive rollforward factor for the First-Class workshared mail processing unit costs in this case, let alone the Postal Service's +7.1% or +0.2 cent unit cost increase. While it is true that increased DPS, while saving delivery costs, increases the number of sorts, it is also true that the net impact of this and other dynamics is reflected in recent data. That net result demonstrates falling unit costs.

(revised 2/12/98)

**REVISED RESPONSE OF ABA/EEI/NAPM WITNESS CLIFTON
TO USPS/ABA&EEI&NAPM/USPS-T1-10**

USPS/ABA&EEI&NAPM-T1-10

Please provide the full calculations or citations to the full calculations for the following two items, which appear in the lower right corner of Technical Appendix C.1, page 10:

Mail Processing Cost	-0.00142
Forwarding Cost	-0.00262

Please explain in detail how these costs are used in Technical Appendix C.1.

RESPONSE

The original response is correct for the model runs attached as Technical Appendices C and D to my testimony. However, the roll-forward factor in those runs is not the -3.6% factor noted in my testimony and explained in further detail in my response to USPS/ABA/EEI/NAPM-T1-8, but a -2.8% roll-forward factor contained in an earlier draft that was rejected. My early runs focused on analyzing the direct labor only component of PFY CRA cost segment 3 as it was initially unclear to me whether USPS witness Alexandrovich's BY1996 single number for unit mail processing costs included direct labor only or overhead as well.

Between drafts of the direct testimony, it had become clear that the single Alexandrovich number included both CRA cost segment 3 components, and my roll-forward procedure was changed to incorporate considerations of both direct labor and overhead percentage changes in recent CRA history as well as other factors. While the procedure is described correctly in my testimony at page 22, lines 1-5, staff did not cleanse the model runs of the rejected roll-forward factor and use the formal -3.6% procedure. The corrected model runs and accompanying changes in text and text tables are being submitted as errata, and also as a revised response to USPS/ABA/EEI/NAPM-T1-4, but do not materially alter my testimony or my recommended rates for First-Class workshared letter mail.

Using the revised model runs based on the -3.6% roll-forward factor, the answer to this question should read:

The mail processing adjustment is based on the weighted FY94-96 and FY95-96 change in unit attributable costs for mail processing direct labor plus overhead that is further explained in response to USPS/ABA/EEI/NAPM-T1-8. This unit cost was 2.7674 cents in base year 1996 according to USPS witness Alexandrovich. The drop of -0.0996 cents in FY1997 and -0.0969 cents in TY1998 reflects the -3.6% roll-forward factor, producing a mail processing cost adjustment of 0.196 cents by the test year, as shown in the lower right hand corner of Technical Appendix C.1, page 10, revised 2/12/98.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-11

At page 22, line 3, of your testimony, you indicate that your elasticity may be capturing other factors in addition to volume mix changes. What other factors do you think may have contributed to a decline in First-Class presort mail processing costs?

RESPONSE

See my response to USPS/ABA&EEI&NAPM-T1-8.

USPS/ABA&EEI&NAPM-T1-12

In what way does your methodology take into account the decline in carrier route presort between FY96 and the test year? In what way does your methodology take into account the increase in mail processing sortations in order to Delivery Point Sequence the mail?

RESPONSE

I assume that the "decline in carrier route presort" refers to volumes. My analysis accounts for this decline in two ways. First, my volume forecasts reflect the regression methodology and equations developed by USPS witnesses Thress and Tolley, which capture this decline. Second, I have examined historical cost trends and included, where appropriate, such trends in my test year cost estimates.

The increase in sortations and the associated change in costs to delivery point sequence mail are captured in my analysis directly since my analysis uses the test year modeled costs by First-Class workshared category presented by USPS witness Hatfield in Exhibit USPS-25A. Hatfield captures the number of first and second passes through DBCS machines, and first, second and third passes through CSBCS machines.

**RESPONSES OF ABA/EEL/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-12

In what way does your methodology take into account the decline in carrier route presort between FY96 and the test year? In what way does your methodology take into account the increase in mail processing sortations in order to Delivery Point Sequence the mail?

RESPONSE

I assume that the "decline in carrier route presort" refers to volumes. My analysis accounts for this decline in two ways. First, my volume forecasts reflect the regression methodology and equations developed by USPS witnesses Thress and Tolley, which capture this decline. Second, I have examined historical cost trends and included, where appropriate, such trends in my test year cost estimates.

The increase in sortations and the associated change in costs to delivery point sequence mail are captured in my analysis directly since my analysis uses the test year modeled costs by First-Class workshared category presented by USPS witness Hatfield in Exhibit USPS-25A. Hatfield captures the number of first and second passes through DBCS machines, and first, second and third passes through CSBCS machines.

INTERROGATORY RESPONSES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC
INSTITUTE, AND NATIONAL ASSOCIATION OF PRESORT
MAILERS

WITNESS JAMES A. CLIFTON (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

ADVO/ABA,EEI&NAPM-T1-1
ADVO/ABA,EEI&NAPM-T1-4
ADVO/ABA,EEI&NAPM-T1-5
ADVO/ABA,EEI&NAPM-T1-6
AMMA/ABA,EEI&NAPM-T1-1
AMMA/ABA,EEI&NAPM-T1-2
AMMA/ABA,EEI&NAPM-T1-3
AMMA/ABA,EEI&NAPM-T1-4
NDMS/ABA,EEI&NAPM-T1-1
USPS/ABA,EEI&NAPM-T1-3
USPS/ABA,EEI&NAPM-T1-4
USPS/ABA,EEI&NAPM-T1-5
USPS/ABA,EEI&NAPM-T1-7
USPS/ABA,EEI&NAPM-T1-8
USPS/ABA,EEI&NAPM-T1-10
USPS/ABA,EEI&NAPM-T1-11
USPS/ABA,EEI&NAPM-T1-12
USPS/ABA,EEI&NAPM-T1-13
USPS/ABA,EEI&NAPM-T1-14
USPS/ABA,EEI&NAPM-T1-15
USPS/ABA,EEI&NAPM-T1-16
USPS/ABA,EEI&NAPM-T1-17
USPS/ABA,EEI&NAPM-T1-18
USPS/ABA,EEI&NAPM-T1-20
USPS/ABA,EEI&NAPM-T1-22

Designating Parties:

ADVO
ADVO
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NDMS
AMMA, USPS
AMMA, USPS
AMMA
ADVO
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Interrogatory:

USPS/ABA,EEI&NAPM-T1-26
USPS/ABA,EEI&NAPM-T1-27
USPS/ABA,EEI&NAPM-T1-31
USPS/ABA,EEI&NAPM-T1-32
USPS/ABA,EEI&NAPM-T1-33
USPS/ABA,EEI&NAPM-T1-34
USPS/ABA,EEI&NAPM-T1-35
USPS/ABA,EEI&NAPM-T1-36
USPS/ABA,EEI&NAPM-T1-37
USPS/ABA,EEI&NAPM-T1-38
USPS/ABA,EEI&NAPM-T1-39
USPS/ABA,EEI&NAPM-T1-40
VP-CW/ABA,EEI&NAPM-T1-1
VP-CW/ABA,EEI&NAPM-T1-2
VP-CW/ABA,EEI&NAPM-T1-3
VP-CW/ABA,EEI&NAPM-T1-4
VP-CW/ABA,EEI&NAPM-T1-5
VP-CW/ABA,EEI&NAPM-T1-6
VP-CW/ABA,EEI&NAPM-T1-7
VP-CW/ABA,EEI&NAPM-T1-8
VP-CW/ABA,EEI&NAPM-T1-9

Designating Parties:

USPS
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ADVO
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USPS
USPS
USPS
USPS
USPS
VP-CW
VP-CW
VP-CW
VP-CW
ADVO, VP-CW
VP-CW
ADVO, VP-CW
VP-CW
VP-CW

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-13

Please calculate the elasticity shown in your Technical Appendix A.4 for the periods FY90 to FY92 and FY91 to FY93. Please perform this calculation using total mail processing labor (direct plus overhead).

RESPONSE

I do not have, nor did I use, the old cost data necessary to perform the calculations you request. I do not view data back this far as being very useful in a BY96-TY98 exercise; and in any event, I did not formally use this factor in my rollforward procedure.

USPS/ABA&EEI&NAPM-T1-14

(a) Please confirm that, based upon the calculations you perform in you Technical Appendix B.1, page 1 (where you show that the projected drop in nonautomation share from 28.76 to 13.01 percent from FY96 to FY98), a 15.75 percent decline in the nonautomation share leads to a decline of .6908 cents per piece in mail processing labor costs per piece, which is a 25 percent decline in mail processing labor costs (.6908/2.7674). Fully explain any non-confirmation

(b) Please also confirm that this 15.75 percent share decline is a 54.76 percent decline in the nonautomation share percentage (15.75/28.76). Fully explain any non-confirmation.

RESPONSE

a. Not confirmed. The projected drop in the nonautomation share from 28.76% to 13.01% is a 54.76% drop in the share (13.01/28.76-1). The share has dropped by more than half. A 15.75% drop in the share would yield 24.23% as the projected nonautomation share. A drop of 15.75 percentage points in the share would yield a 13.01% as the projected share. I am using the change in the nonautomation share with an elasticity to calculate the projected share. This elasticity, like any other elasticity, relates percent changes in one factor to percent changes in another factor. Elasticities do not relate percentage point changes in one factor to anything.

b. Confirmed. Please see my answer to part a.

USPS/ABA&EEI&NAPM-T1-15

(a) Please confirm that, given the procedure used in Technical Appendix B.1, page 1, the same results -- a decline of .6908 cents per piece or 25 percent

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

decline in mail processing labor costs -- would be obtained if the nonautomation share was 7.19 percent in FY 96 and 3.253 percent in FY 98. If you do not confirm, please explain in detail.

(b) Please also confirm that this change in the nonautomation share from 7.19 to 3.253 is a 3.94 percent share decline, which is a 54.76 percentage decline in the nonautomation share percentage (3.94/7.19). Fully explain any non-confirmation.

RESPONSE

a. Not confirmed. My elasticity of mail processing direct labor costs to the nonautomation share is measured with historical nonautomation shares in FY94, FY95, and FY96. The elasticity I have calculated can properly be used to examine changes from the value of the share in these historical years. This elasticity should not be used to examine when the starting nonautomation share is wildly different from historical experience. The hypothetical posits a nonautomation share of 7.19% in FY96, which is one quarter of its actual FY96 value. Thus, the elasticity value I have calculated would not apply to the hypothetical. State otherwise, since the FY96 nonautomation share is around 30%, not 7.19%, the relevance of an elasticity calculated around a 7.19% share is doubtful.

To respond to the hypothetical in a meaningful way, one would have to know the assumed nonautomation share and the unit mail processing costs for FY94, FY95, and FY96. Then an elasticity can be calculated which is appropriate for a starting 7.19% share. The elasticity calculated around a 7.19% share probably would not be the same as the elasticity value calculated around the most recent historical shares. With the elasticity calculated around 7.19%, one can examine the change in mail processing costs resulting from a change in nonautomation share from 7.19% to a higher or lower value. With a different elasticity and a different assumed FY96 mail processing unit cost, the change in these unit costs resulting from a change in the nonautomation share from 7.19% to 3.253% most likely would not be 0.6908 cents.

b. A change in the nonautomation share from 7.19% to 3.253% is a 54.76% drop in the share or a 3.94 percentage point drop.

USPS/ABA&EEI&NAPM-T1-16

(a) Please confirm that, given the procedure used in Technical Appendix B.1, page 1, the same results -- a decline of .6908 cents per piece or 25 percent decline in mail processing labor costs -- would be obtained if the nonautomation share was 86.28 percent in FY 96 and 39.03 percent in FY 98. If you do not confirm, please explain in detail.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

(b) Please also confirm that this change in the nonautomation share from 86.28 to 39.03 is a 47.25 percent share decline, which is a 54.76 percentage decline in the nonautomation share percentage ($47.25/86.28$). Fully explain any nonconfirmation.

RESPONSE

a. Not confirmed. Please see my answer to USPS/ABA&EEI&NAPM-T1-15a. which is applicable here notwithstanding that in this hypothetical the nonautomation share is about three times its actual FY96 value, 86.28%, as compared to the prior interrogatory in which it is assumed that the nonautomation share is assumed to be about one quarter of its actual FY96 value.

The value of the elasticity calculated around a 86.28% share probably would not be the same as the elasticity value calculated around the most recent historical shares. With the elasticity calculated around 86.28%, one can examine the change in mail processing costs resulting from a change in nonautomation share from 86.28% to a new higher or lower value. With a different value of the elasticity and a different hypothetical FY96 mail processing unit cost, the change in these unit costs resulting from a change in the nonautomation share from 86.28% to 39.03% most likely would not be 0.6908 cents.

b. A change in the nonautomation share from 86.28% to 39.03% is a 54.76% drop in the share or a 47.25 percentage point drop.

**RESPONSES OF ABA/EEL/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-17

Assume that the existing worksharing rate incentives for First-Class Mail letters are eliminated as a result of Docket No. R97-1. Under such circumstances, would you agree that First-Class Mail letters which presently qualify for those worksharing discounts -- and which remained in the First-Class Mail stream as nonpresorted mail after the elimination of those rate incentives -- would become bulk metered mail? If you do not agree, please explain.

RESPONSE

I cannot agree. Presumably, mailers will act in their own self-interest. This may entail using stamps, permit imprint, or metered mail. Of course, various alternatives would be more attractive, *e.g.*, direct debit, electronic banking, and even self delivery. Moreover, the hypothetical's implicit assumptions are unsound in at least two respects - (a) that the Postal Service could reasonably process formerly workshared mail, *e.g.*, 20 or 30 billion pieces, that, under the hypothetical, reverted to single piece; and (b) that unlike all other workshared mail, rates set for workshared First-Class mail should not reflect mailers' mail preparation efforts.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ABA&EEI&NAPM-T1-18

Please refer to your Technical Appendix A.2. There, you cite USPS Library Reference MCR-76 from Docket No. MC95-1 as the source for the assertion that 2.69 percent of First-Class Mail is forwarded.

(a) Please confirm that the 2.69 percent figure is from Table 4.2 of LR-MCR-76 and that it is the percentage of First-Class Mail that is Undeliverable As Addressed (UAA). If you are unable to confirm, explain in full.

(b) Please confirm that Table 4.4 of LR-MCR-76 shows that only 69.76 percent of First-Class UAA mail is forwarded. If you are unable to confirm, explain in full.

(c) Please confirm that, according to LR-MCR-76, the percentage of First-Class Mail that is forwarded is 1.88 ($2.69 \times .6976$). If you are unable to confirm, explain in full.

RESPONSE

Please see my response to USPS/ABA&EEI&NAPM-T1-7. As indicated in that response, I relied on witness Pajunas's sworn testimony in Docket No. MC95-1.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-20

Please refer to pages 3-4 of Technical Appendix C.2. These pages present First-Class workshared rates and Standard (A) Commercial rates under your "Alternate Proposal."

- a. This page includes alternate proposed rates for First-Class automated basic and 3/5-Digit flats. The body of your testimony makes no mention of flat rates. Are you intending to propose alternate flat rates? If so, what is the justification for your alternate proposal?
- b. This page also includes alternate proposed rates for workshared cards. the body of your testimony makes no mention of card rates. Are you proposing alternate card rates? If so, what is the justification for your alternate proposal?
- c. Please confirm that the alternate proposal proposes alternate rates for Standard Regular and ECR mail, but makes no alternate proposal for nonprofit rates. If not confirmed, please explain.
- d. Please confirm that your alternate proposal for Standard Regular and ECR mail reduces discounts by 1.2 cents across the board. If not confirmed, please explain.
 - i) What is your justification for reducing these Standard mail discounts?
 - ii) Please provide the average percentage rate increases under your Alternative Proposal for Standard Regular (all rate categories combined) and ECR (all rate categories combined) mail, respectively.
 - iii) Please explain the effect this reduction in discounts has on the mark-up over cost for Standard Regular workshared mail versus Standard Regular "nonworkshared" mail, that is, nonautomated basic letters and nonletters.
 - iv) Is the result obtained in (iii) above consistent with your recommended rates and mark-up approach for First Class? Please explain.
 - v) Please provide the comparable nonprofit Standard A rates using the same methodology you used in setting your other Standard A rates.
 - vi) Please provide the comparable nonprofit Standard A rates under the Revenue Forgone Reform Act.
 - vii) Please provide the percentage changes in nonprofit Standard A rates under the Revenue Forgone Reform Act.

RESPONSE

- a. In Technical Appendix C.2, the rates for First-Class workshared cards have been kept at their current rates instead of being set at the rates in the USPS proposal. I am not adopting this as part of my formal proposal; my proposal addresses the issues of cost coverages, discounts, and rates for First-class workshared letters.
- b. In Technical Appendix C.2, the rates for First-Class workshared cards have been kept at their current rates instead of being set at the rates in the USPS proposal. I am not adopting this as part of my formal proposal; my proposal addresses the issues of cost coverages, discounts and rates for First-Class workshared letters.
- c. Confirmed. Please see my response to VP-CW/ABA/EEI/NAPM-T1-7.
- d. My formal proposal relates to First-Class workshared letter discounts and an increase in the cost

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

coverage for Standard A commercial mail, not a decrease in discounts per se. Technical Appendix C.2 simply shows one of several possibilities in which my proposed increase in cost coverage for Standard A commercial mail could be accomplished: by decreasing the discounts for Standard A commercial mail uniformly by 1.2 cents.

i) The discounts for Standard A commercial mail are uniformly decreased to meet the test year revenue requirement with my proposed First-Class workshared letter rates.

ii) Technical Appendix C.2, pages 3 and 4 present rates for the various types of Standard A Regular and the various types of Standard A ECR. There is no overall rate for Standard A Regular mail. One cannot mail a Standard A Regular piece; one can mail one of the various types of Standard A Regular mail. Similarly, there is no overall rate for Standard A ECR mail. There are rates for the various types of Standard A ECR mail.

iii) There are no separate unit costs for Standard A Regular workshared mail and Standard A Regular nonworkshared mail (nonautomated basic letter and nonletters) in the CRA. The only unit cost figure in the CRA is for Standard A Regular as a whole. Since there are no separate cost figures for the detailed types of Standard A mail, a meaningful cost coverage for these two types of mail cannot be computed.

iv) Yes. Please see my response to part iii above.

v) See my response to VP-CW/ABA/EEI/NAPM-T1-7.

vi) Please see my response to part v above.

vii) Please see my response to part v above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-22

Please refer to pages 3-4 of Technical Appendix D. These pages presents (sic) rates under your "Alternate Proposal."

- a. Please confirm that the only rate differences between these two pages and pages 3-4 of your Technical Appendix C.2 are in: (i) the First-Class additional ounce rates for the second and third ounces of workshared mail, and (2) the rates for Standard Regular and ECR rates. If not confirmed, please explain any other differences by rate category.
- b. Please confirm that the alternate proposal proposes alternate rates for Standard Regular and ECR mail, but makes no alternate proposal for nonprofit rates. If not confirmed, please explain.
- c. Please confirm that your alternate proposal for Standard Regular and ECR mail reduces discounts by 1.6 cents across the board. If not confirmed, please explain.
 - i) What is your justification for reducing these Standard mail discounts.
 - ii) Please provide the average percentage rate increases under your Alternate Proposal for Standard Regular (all rate categories combined) and ECR (all rate categories combined) mail, respectively.
 - iii) Please explain the effect this reduction has on the mark-up over cost for Standard Regular workshared mail versus Standard Regular "nonworkshared" mail, that is, nonautomated basic letters and nonletters.
 - iv) Is the result obtained in (iii) above consistent with your recommended rates and mark-up approach for First Class? Please explain.
 - v) Please provide the comparable nonprofit Standard A rates using the same methodology you used in setting your other Standard A rates.
 - vi) Please provide the comparable nonprofit Standard A rates under the Revenue Forgone Reform Act.
 - vii) Please provide the percentage changes in nonprofit Standard A rates under the Revenue Forgone Reform Act.

RESPONSE

- a. Confirmed
- b. Confirmed. See my response to VP-CW/ABA/EEI/NAPM-T1-7.
- c. I have not proposed any discounts or reductions in discounts for Standard A commercial mail per se; rather, I have proposed an increase in the cost coverage for that mailstream. Since rates are developed from the "bottom up" for Regular and ECR subclasses, the implication of my cost coverage proposal is some modest increase in rates. However, accepting your terminology, please refer to Table 13, where I examine recent changes in discounts. The increase in "discounts" for Standard A Regular by identical worksharing category has greatly exceeded that for First-Class workshared mail, and my proposal could rectify that inequity and inefficiency.
 - i). The discounts for Standard A commercial mail are uniformly decreased to meet the test year revenue requirement with my proposed First-Class workshared letter rates.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

ii) Technical Appendix D, pages 3 and 4 present rates for the various types of Standard A Regular and the various types of Standard A ECR. There is no overall rate for Standard A Regular mail. There is not an overall Standard A regular piece, but there are various types of Standard A regular pieces. Similarly, there is no overall rate for Standard A ECR mail since there is no overall Standard A ECR piece. There are rates for the various types of Standard A ECR mail as shown on page 3 and 4 of Technical Appendix D.

iii) See my response to USPS/ABA&EEI&NAPM-T1-20c iii.

iv) See my response to USPS/ABA&EEI&NAPM-T1-20c. iii.

v) See my response to VP-CW/ABA/EEI/NAPM-T1-7.

vi) Please see my response to part v above.

vii) Please see my response to part v above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-26

On page 24, lines 6-12, of your testimony, you reject the use of the bulk metered benchmark because it has been corrected.

- a. At this point, are you aware of any additional computational problem with the benchmark? If so, please explain. If not, please explain why the correction of a computational error disqualifies the use of a benchmark?
- b. Would you apply the same standard to any number in your testimony that may require correction?

RESPONSE

- a. No. It disqualifies its use in this rate case because USPS witness Fronk based his rates on a benchmark which had a large error in it.
- b. No. The same standard cannot be applied to testimony which must be completed in a matter of weeks under strict budgets in the face of numerous changes in USPS methodology, as can fairly be applied to testimony which can take months to complete under no apparent budget restraint whatsoever, given the complexity of the USPS filing and the number of witnesses and technical changes.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-27

In its Opinion and Recommended Decision in Docket No. MC95-1, the Commission stated, "The Commission concludes that cost differentials should reflect costs avoided by required worksharing alone, since the primary purpose of the discount is to maximize productive efficiency within postal markets" (paragraph 4210, at page IV-95).

- a. Do you agree with the Commission's conclusion? Please explain.
- b. Is it your contention that the discounts reflected in your proposed letter automation rates (Table 22, at page 43) are consistent with the commission's conclusion? Please explain.

RESPONSE

- a. In the calculation of discounts, yes, but what has been defined as legitimate to count under worksharing has varied over the years.
- b. Yes, they are consistent with the caveat that I do not believe, having set the appropriate level of discounts, that USPS rate witnesses should have the apparent discretionary freedom they now have to set outlandish cost coverages of 283% for First-Class workshared mail when the cost coverage of Standard A Regular workshared mail is set, for example, at 154%.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-31

On page 23, lines 20-32, of your testimony, you quote from the Commission's Opinion and Recommended Decision in Docket No. MC95-1, which states in part, "Since the cost of the bulk metered component of single-piece mail has not been provided on this record, the Commission has reduced the passthrough of the cost differential between the single-piece benchmark and the basic automation tier from 100 percent to 78 percent."

- a. Please confirm that the bulk metered cost has been provided in this docket. If not confirmed, please explain.
- b. Please confirm that in developing your proposed letter rates, you used this same 78 percent figure used by the Commission. If not confirmed, please explain.
- c. Please discuss why you think it is also appropriate to apply 78 percent in this docket.
- d. Please explain why you consider 78 percent is more appropriate here than, for example, 75 percent or 73 percent.

RESPONSE

- a. Several bulk metered costs have been presented in this case, but the wrong one was supplied to USPS witness Fronk, who relied on it in setting his rates for First-Class workshared mail.
- b. Confirmed.
- c. For this case at least, the credibility of the proposed bulk metered benchmark has been hurt beyond repair, so I cannot rely on it and revert instead to the Commission's MC95-1 methodology.
- d. 78% is a recent figure reflecting recent circumstances, but I am not wedded to it, to 75%, or to USPS witness Fronk's original 113% passthrough. Relying on the Commission's methodology seemed less arbitrary than trying to develop my own.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-32

Please refer to pages 6 and 10 of your Technical Appendix C.2. These pages show that under your proposal for First-Class workshared rates, the volume of single-piece letters and flats falls 3.6 percent and the associated costs fall 3.6 percent. However, the volume of workshared letters and flats increase by 6.4 percent while the associated costs increase by only 2.0 percent. Please explain.

RESPONSE

In my analysis, total costs for a type of mail are the unit costs for that type of mail multiplied by volume for that type of mail. Unit costs are shown at the bottom of page 10 of Technical Appendix C.2. As noted there, adjustments have been made to the unit cost for First-Class workshared mail proposed by the USPS to incorporate continuing declines in mail processing costs and forwarding cost savings. Thus, as shown on the bottom of page 10 on the left hand side, the corrected unit cost for First-Class workshared mail is lower in my alternate proposal than in the USPS proposal. As a result, my total costs for First-Class workshared mail will not increase by as much as volume does when compared to the USPS proposal.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-33

Table 22 (page 43) in your testimony presents proposed workshare rates for First-Class letters. By how much do these proposed rates reduce First-Class revenues, as compared with the USPS proposal? Please explain.

RESPONSE

The analysis of the proposed rates in Table 22 is shown in Technical Appendix C.2. Specifically, the change in revenue from these rate changes is shown on page 8 of that Appendix.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-34

On page 44, lines 17-18, of your testimony, you state, "Notably, my proposal raises the revenue contribution that Standard A commercial mail makes to the Postal Service by about \$469 million."

- a. Please provide the revenue and cost numbers that result in this net change of \$469 million.
- b. How does this \$469 million relate to "very small revenue loss of \$139 million" shown on page 43, line 19, of your testimony? Please explain.

RESPONSE

a. The \$469 million increase in the contribution of Standard A commercial mail to the Postal Service is shown in Technical Appendix C.2, page 8, last line of the third column.

b. In the analysis of my proposed discounts and rates before adjusting the cost coverage for Standard A commercial mail, the revenue loss to the Postal Service as a whole, *i.e.*, the net deficit, is \$117.0 million (see Technical Appendix C.1, page 5, revised 2/12/98). The difference and relationship between the \$469 million increase in the contribution of Standard A commercial mail in one analysis and the \$117 million revenue loss are clear. The \$117 million revenue loss is the difference between total Postal Service revenues and total Postal Service costs before adjusting the cost coverage for Standard A commercial mail. The \$469 million is a revenue increase from a single type of mail after adjusting the cost coverage for Standard A mail and does not take into account changes in revenues from other types of mail and changes in costs for all types of mail.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-35

On pages 14-16 of Technical Appendix D, fixed weight price indices for your alternate proposal are presented. Please provide the calculations leading to these indices.

RESPONSE

a. The fixed weight price indices including user cost are the sums of their respective fixed weight price indices excluding user cost (page 15) and user costs (p.16). The data for the fixed weight price indices excluding user cost and user costs under the USPS Proposed R97-1 are obtained from USPS witness Thress' workpapers (specifically the Excel file SF_R97AR.xls) and are the average of the 1998 quarterly figures presented there.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-36

Technical Appendix D, pages 20-26, of your testimony presents your volume forecasting and share forecasting models.

- a. Please confirm that you use long-run price elasticities instead of current and lagged price elasticities in your model. If confirmed, please explain why. If not confirmed, please explain.
- b. Please confirm that you model single-piece letters as a function of Standard bulk mail volume lagged four quarters. If confirmed, please explain why. If not confirmed, please explain.
- c. Please confirm that you treat the aggregate price of First-Class letters as being constant between the Postal Service's proposal and your proposal when calculating cross-price effects on First-Class cards and Standard regular mail. If confirmed, please explain why. If not confirmed, please explain.

RESPONSE

a. The basis of my volume forecasts are the volume regression estimated by USPS witness Thress. As I explain in my Workpaper 1 on pages 10 and 11, Thress estimated his equations on a quarterly basis while my analysis is on an annual basis. Since my analysis is annual, I have used the sums of the quarterly price coefficients presented in Thress' testimony.

b. Confirmed. The term in Thress' quarterly regression is for Standard Regular volume lagged one quarter. Since my analysis is on an annual basis, I cannot lag a variable one quarter. The choices are to make the variable contemporaneous or use its value in the previous period, *i.e.*, the previous year. Thress (USPS-T-7, pp. 22-26) discusses the inclusion of Standard Regular volume in his equations for First-Class letters (both single-piece and workshared). In the case of a First-Class single-piece letter, the First-Class single-piece letter is in response to a previously mailed Standard A Regular piece. Thus, the more appropriate of the choices of contemporaneous value or lagged value is the lagged value.

c. Not confirmed. The price used in the volume forecasts for First-Class private cards and Standard Regular is the price for First-Class single piece letters. The price of First-Class single piece letters is 33 cents in both the Postal Service's proposal and my alternative analyses. Thus, the First-class single-piece letter rates in the USPS proposal and my alternate proposal shown in Technical Appendix D are the same. In a hypothetical analysis of a hypothetical change in the First-Class single-piece letter rate, the rates shown under the USPS proposal and my alternate proposal would be different.

RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS

USPS/ABA&EEI&NAPM-T1-37

On page 44 (lines 20-21) of your testimony, you claim that "the new own price elasticity for workshared First-Class mail indicates that there are competitive alternatives to the Postal Service for this mailstream." Please explain this statement.

RESPONSE

While all the germane own price elasticities (First-Class single piece, First-Class workshared, Standard A Regular, Standard A ECR) are inelastic, indicating limited competitive alternatives, the modestly less inelastic figures for Standard A have been used to justify much lower rates for those subclasses over the years on the grounds the elasticity indicates the presence of competitive alternative. The fact of absolute price inelasticity, indicating limited competitive alternatives for advertising mail, has been all but forgotten in the regulatory debate. Now, we are supplied for the first time by USPS with an own price elasticity for First-Class workshared mail which is closer to Standard A Regular mail than heretofore known (-0.289 vs. -0.382) and somewhat less price inelastic than First-Class single piece mail (-0.289 vs. -0.189).

Using the same logic that has been applied to Standard A mail rates for years, the less inelastic figure for First-Class workshared mail compared to single piece indicates the presence of competitive alternatives, and warrants somewhat lower rates than existing rates. The major competitive alternative I see for First-Class workshared mail is the growth of direct debit services that bypass use of the Postal Service.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-38

What are the "competitive alternatives to the Postal Service" for workshared First-Class letters? Do these competitive alternatives also exist for single-piece First-Class letters? Please explain any negative answer.

RESPONSE

See my response to USPS/ABA&EEI&NAPM-T1-37.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-39

Postal Service witness Thress made the following statement in oral cross-examination:

"[T]he goal of econometrics is to estimate the impact on in this case volume of a change in a particular factor, holding all other factors constant."

[Docket No. R97-1;Tr. 13/6827]

- a. Do you agree with this statement?
- b. With respect to the own-price elasticity of workshared First-Class letters estimated by witness Thress and cited by you on page 44 at line 23, what "other factors" are assumed to be held constant?
- c. If the price of workshared First-Class letters were increased by one percent, by what percentage would the price of single-piece First-Class letters have to increase in order for workshared First-Class letters volume to decline by exactly 0.289 percent?

RESPONSE

a. This may be a goal, but it is certainly not the only goal of econometrics. The goals of econometrics are much broader. For example, Henri Theil states that a goal of econometrics is, "the empirical determination of economic laws." (Henri Theil, Principles of Econometrics, New York: John Wiley & Sons, Inc., 1971, page 1). If this is the meaning that USPS witness Thress intends, then I agree with his statement.

b. The other factors held constant would be all other factors which could affect the volume of First-Class workshared mail. Only the price of First-Class workshared mail should vary if one wishes to measure solely the effect of the price of First-Class workshared mail on its volume.

A simple example may be helpful. Suppose the variable one wished to study was determined by only two factors, A and B. A regression containing both factors A and B as explanatory variables allows several analyses. One could determine the effect of changing only factor A and keeping factor B constant. Alternatively, one could determine the effect of changing only factor B and keeping factor A constant. A third possible analysis is to change both factor A and factor B and examine the result. In the analyses presented in my Technical Appendices C.1 and C.2, my alternate proposal includes more than one change from the USPS proposal and all the changes are properly accounted for in my volume forecasts and in the rest of the analysis.

c. If the price of First-Class workshared letters increase by one percent, then the elasticity of -0.289 estimated by USPS witness Thress would imply that the volume of First-class workshared letters should decline by 0.289 percent, holding other factors which influence this volume constant.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-40

Suppose that First-Class letter rates were increased by 10 percent across the board.

- a. Please confirm that all worksharing discounts for First-class letters would increase by 10 percent.
- b. Please confirm that, based on Postal Service witness Thress's estimated own-price elasticity of -0.189, this 10 percent increase in the price of single-price First-Class letters would lead to a decline of 1.89 percent in the volume of single-piece First-Class letters.
- c. Please confirm that, based Postal Service witness Thress's estimated discount elasticity of -0.164, this 10 percent increase in the worksharing discount for First-class letters would lead to a decline of 1.64 percent in the volume of single-piece First-Class letters.
- d. Please confirm that the combined effect of the changes in parts b. and c. above would be for single-piece First-Class letters volume to decline by 3.5 percent.
- e. Please confirm that, based on Postal Service witness Thress's estimated own-price elasticity of -0.289, this 10 percent increase in the price of workshared First-Class letters would lead to a decline of 2.89 percent in the volume of workshared First-Class letters.
- f. Please confirm that, based on Postal Service witness Thress's estimated discount elasticity of 0.22, this 10 percent increase in the worksharing discount for First-Class letters would lead to an increase of 2.22 percent in the volume of workshared First-Class letters.
- g. Please confirm that the combined effect of the changes in parts e. and f. above would be for workshared first-Class letters volume to decline by 0.7 percent
- h. Would it be correct to interpret the result in section d. above as indicating that single-piece First-Class letters have an elasticity with respect to the price of First-Class letters equal to -0.35? If not, why not?
- i. Would it be correct to interpret the result in section g. above as indicating that workshared first-Class letters have an elasticity with respect to the price of First-Class letters equal to -0.07? If not, why not?
- j. Please confirm that single-piece First-Class letters are less price inelastic than workshared First-Class letters with respect to the price of First-Class letters. Please explain any negative response.
- k. Does this suggest that single-piece First-Class letters have more competitive alternatives than workshared First-Class letters? Please explain any negative answer.

RESPONSE

Note that your hypothetical is not possible under the whole cent rounding convention for single piece which would produce the hypothetical rate of 35.2 cents.

a.-g. Confirmed.

h. No. USPS witness Thress' volume regression for First-Class single-piece mail produces an elasticity of -0.189, holding other factors, including worksharing discounts, constant. The hypothetical has not held other factors constant; it also has changed the First-Class workshared discount. Please see my response to 39 b. above for a discussion of the inclusion of more than one factor in a regression analysis.

i. No. USPS witness Thress' volume regression for First-Class workshared mail produces an elasticity of -0.289 with respect to the First-class single-piece price, holding other factors, including

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

worksharing discounts, constant. The hypothetical has not held other factors constant; it also has changed the First-Class workshared discount. Please see my response to 39 b. above for a discussion of the inclusion of more than one factor in a regression analysis.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-1

Please refer to your testimony at page 44, lines 22-26.

- a. Is it your view that the price elasticity between First-Class workshared mail (-0.289) and that of Standard A ECR mail (-0.598) are not that different? Please explain your answer
- b. Is it your testimony that the fact that the cost coverage of First-Class workshared mail (283 percent) is higher than the cost of coverage of Standard A ECR mail (228 percent), Exhibit USPS-30B (as revised 9/19/97), cannot be justified by a comparison of the price elasticity of each type of mail? Please explain your answer.
- c. Do you believe that the Standard A Regular and Standard A ECR subclasses should be viewed together (as Standard A Commercial) for purposes of comparison with the rate category First-Class workshared mail when coverages are considered? Please explain your answer.
- d. Would you recommend that First-class workshared mail should never be combined with First-Class single piece mail (forming the First-Class letters subclass) for purposes of comparison with other classes or subclasses when rates are proposed or recommended? Please explain your answer.
- e. Is it your testimony that the Commission should treat First-Class workshared mail as a subclass when considering rate proposals and recommending rates, even though the Commission has repeatedly rejected proposals to make First-Class workshared mail a subclass separate from First-Class letter mail? Please explain your answer.

RESPONSE

- a. In my testimony on page 44, I was comparing the elasticity for First-Class workshared mail as a whole to Standard A commercial mail as a whole. The USPS has not estimated an elasticity for Standard A commercial mail as a whole. The elasticities which are available from the USPS are for Standard A commercial regular (-0.328) and Standard A commercial ECR (-0.598). Under these circumstances, for example, if Standard A commercial had an elasticity value near the mid-point of the range (-0.463), I would characterize them as not that different. Moreover, as I note in my testimony, both are inelastic.
- b. In my testimony, I do not relate relative cost coverage levels to relative elasticities. My argument that the cost coverage for First-Class workshared mail is too high is based on the recent trend of growing First-Class cost coverage divergence from the system-wide average, the greater-than-average increase in revenue per piece for First-Class workshared mail proposed by the Postal Service in R97-1, and the disparity in contributions to institutional costs between First-Class workshared and Standard A mail. I discuss First-Class workshared cost coverage in detail at pages 36-41 of my testimony.
- c. Yes, some such comparison is appropriate since much of the volumes in the two mailstreams have similar physical characteristics and, therefore, generally similar cost characteristics.
- d. No. Generally, however, such comparisons are not as useful as comparing similarly prepared mail, e.g., First-Class workshared versus Standard A commercial mail.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

e. No. However, lack of formal subclass status should not preclude either the Commission from recommending or the Postal Service from proposing rates and cost coverages for First-Class workshared mail in some reasonable relationship to the corresponding rates and cost coverages for Standard A commercial mail. The Postal Service's own witness for Standard A mail, Sharon Daniel, makes comparisons of mail processing and delivery cost as between Standard A and First-Class workshared, so there is a basis in fact for doing so. Furthermore, lack of formal subclass status should not be used as an excuse by the Postal Service or the Commission to "load up" the institutional cost burden borne by First-Class workshared mail in favor of either First-Class single piece rates or Standard A commercial rates. But that is precisely the result of the Postal Service's rate proposal in this case — First-Class workshared mailers have been saddled with an inequitable and inefficient share of institutional costs.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-2.

Please refer to your testimony at page 44, line 29 to page 45, line 2.

- a. Is it your testimony that the Commission should only consider economic efficiency in setting First-Class and Standard A coverages?
- b. If not, what other factors of 39 U.S.C. Sec. 3622(b) support closer coverage factors?
- c. Do any factors support the Postal Service's proposal?

RESPONSE

- a. No. Equity with Standard A commercial mail rates, cost coverages, and discounts figures prominently throughout my testimony. See, especially, Section IV.
- b. Principally, §§ 3622 (b) (1), (2), and 8 but arguably 4-7, and 3 insofar as extra ounce coverages are concerned.
- c. No. My testimony describes my disagreement with the Postal Service's filing.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-3

In your testimony, at Technical Appendix C-2, you analyze a proposal which would increase Standard A ECR's cost coverage from 228 percent to 241 percent (*Id.*, p.2), and adds 1.2 cents to the rates of all piece-rated Standard A ECR rate categories (*Id.*, p. 3). At Technical Appendix D, you analyze a proposal which would increase the Standard A ECR cost coverage from 228 percent to 245 percent (*Id.*, p.2), which would add 1.6 cents to the rates of all piece rated Standard A ECR rate categories (*Id.*, p.3).

- a. Given the price elasticity of First-Class workshared mail (-0.289) and the price elasticity of Standard A ECR mail (-0.598) (ABA/EEI/NAPM-T-1-4, p. 44), in the pursuit of economic efficiency, which postal product could better sustain an increase in rates? Please explain your answer.

RESPONSE

- a. Please see my response to VP-CW/ABA/EEI/NAPM-T1-1b.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-4

Please refer to your testimony at page 38, lines 8-10.

- a. Please explain how the unit contribution made to postal institutional costs by First-Class workshared mail under the Postal Service's proposed rates is more than two and one half times the contribution from Standard A Regular mail.
- b. Would you recommend that the Commission look to Priority Mail's per-piece contribution to institutional costs when setting Priority Mail coverage?

RESPONSE

- a. The unit contribution of First-Class workshared mail is 2.43 times that of Standard A Regular mail; the total contribution is 2.65 times that of Standard A Regular mail. The word "over" on line 9 should read "about".
- b. While I did not consider Priority Mail in my proposal as it is different in character from workshared letter mail, per-piece contribution is a relevant factor for the Commission to consider.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-5

- a. Please confirm that the adoption of your cost estimates, proposed coverage, and proposed rates for First-Class Mail would result in a revenue loss of \$139 million. Please explain any non-confirmation (sic).
- b. Please confirm that you propose an increase in Standard Mail A rates of \$469 million. Please explain any non-confirmation (sic).
- c. Please explain why you propose rate increases in Standard Mail A greater than the revenue loss arising from your proposal in First-Class Mail.

RESPONSE

- a. Not confirmed. In Technical Appendix C.1 (revised 2/12/98), my proposed discounts and rates are analyzed before adjusting the cost coverage for Standard A commercial mail. See also my testimony at 43 (Revised 2/12/98). In this case, the net surplus/(deficit) is (-\$117) million, although the C.1 analysis is not my formal proposal.
- b. It is not clear to which of my analyses this question is referring. Concerning my proposed discounts and rates before adjusting the cost coverage for Standard A commercial mail, the revenue for Standard A commercial mail is unchanged (see page 8 of Technical Appendix C.1) (Revised 2/12/98). Concerning my proposed discounts and rates after adjusting the cost coverage for Standard A commercial mail, the revenue from Standard A commercial mail does indeed increase by \$469 million (see Technical Appendix C.2) (Revised 2/12/98).
- c. The question appears to be based on a misreading of my testimony. It is obviously incorrect to combine the \$117 million net deficit in my analysis of my proposed discounts and rates before adjusting the cost coverage for Standard A commercial mail (Technical Appendix C.1) with the \$469 million revenue increase from Standard A commercial mail after adjusting the cost coverage for Standard A mail. The \$117 million net deficit is the difference between total Postal Service revenues and total Postal Service costs. The \$469 million is revenue from a single type of mail and does not take into account changes in revenues from other types of mail and changes in costs for all types of mail. The proper figure to look at is the \$54.0 million net postal surplus in my analysis after adjusting the cost coverage for Standard A mail (see Technical Appendix C.2, page 5) (Revised 2/12/98).

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-6

At page 26, lines 11-13, you state that "There is probably more potential conversion mail to First-Class from Standard A regular mail than from bulk metered First-Class Mail."

- a. Please provide copies of our citations to all data, studies, analysis, or reports on which you rely to support this statement.
- b. In the absence of studies or analysis, please provide all examples or anecdotal evidence of which you are aware that support this statement.

RESPONSE

a. & b. The statement is based on my recollection that the Postal Service has encouraged advertising mailers to "trade up" to First-Class mail, reflecting the position that workshared First-Class mail is a substitute for Standard A Regular mail, and that generally the mail is physically similar and prepared similarly by rate category.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-7.

At page 44, lines 15-16, you propose to raise "the cost coverages of Standard A Mail from the USPS proposed 167 percent to 175 percent."

- a. Please specify separately your proposed coverage for each independent subclass of Standard A, including the nonprofit subclasses.
- b. Do you agree that increasing the average of the commercial rate subclasses would, under RFRA, also increase the coverage on nonprofit subclasses? Please explain fully any answer that is not an unqualified affirmative.

RESPONSE

a. & b. My testimony addresses the issues of cost coverages, discounts, and rate equity and efficiency between First-Class workshared mail and Standard A commercial mail. While I recognize that RFRA may require adjusting the cost coverage for Standard A nonprofit mail, such an adjustment was not reflected in my results since I did not develop non-profit rate category data necessary for making such an adjustment. See Technical Appendix C.2 at 2. It was not my intent that such an adjustment be ignored.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-8.

At page 46, line 13, you state that your proposed rates and coverages are "more efficient" than those proposed by the Postal Service. Explain every sense in which you consider your rates to be more efficient, including but not limited to consideration of Ramsey Pricing (sic).

RESPONSE

To quote a widely used basic textbook:

"To economists, the concept of efficiency is related to a concern with the well-being of those in the economy For the economy to be efficient, it must meet the conditions of exchange efficiency, production efficiency, and product-mix efficiency."

Stiglitz, Joseph, Economics, W.W. Norton, 1993, pp. 380-381

As I pointed out in MC-95-1, recent USPS Household Diary Study volumes clearly indicate that at the margin, the general public finds the value of advertising mail at the margin to be zero or negative. Whereas, the value of First-Class Mail at the margin is generally found to be high. While nobody likes receiving bills as such, the ECSI value of the First-Class workshared mail I receive is very high for its informational content -- mutual fund statements, banking statements, credit card statements from which I can discern how I am allocating my monthly budget, etc.

To be more efficient, postal prices must reflect the preferences noted above. That is, Standard A commercial rates should be higher, reflecting the public preference for less advertising mail to be sent, while First-Class Mail rates should be lower, and discounts higher, reflecting the preference of the public for the types of mail that are sent First-Class. Under the USPS proposed rates, to borrow Stiglitz's terminology, the Postal Service's product mix is inefficient, leading to too much advertising mail volume, and too little First-Class mail volume, relative to the preferences of the consuming public.

If the public could choose the type of mail it consumes from USPS delivery, clearly it would choose to receive less advertising mail and more First-Class Mail. Stated otherwise, the Postal Service's proposed rates exacerbate what Stiglitz calls "exchange inefficiency."

In general, I do not support Ramsey pricing for postal services as it would seem to legitimize (efficient) monopoly pricing, whereas a major purpose and goal of postal rate regulation is to replicate efficient competitive prices in rate design insofar as possible. USPS witness Bernstein's calculations of hypothetical Ramsey-efficient rates in R97-1 would however, lead to a 245% cost coverage for First Class workshared mail, well under the USPS proposed coverage of 283% and well under my proposed coverage of 274%. I view the Ramsey rates as being what an efficient monopolist would charge using inverse elasticity pricing. Thus, First-Class workshared rates with a cost coverage in excess of 245% are absolutely inefficient, but my proposed 274% cost coverage (269% including my extra ounce rate proposal in ABA/NAA-T1) at least moves First-Class workshared rates a small way in the direction of greater efficiency than the Postal Services's proposed rates with a 283% cost coverage.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO
INTERROGATORIES OF VP-CW**

VP-CW/ABA/EEI/NAPM-T1-9

At page 46, lines 14-17, you state that your proposed rates reflect "what the general public finds of greatest value in the nation's postal service and what it finds of lesser, little or even negative value."

- a. Please provide copies of, or citations to, all data, studies, analysis or reports on which you rely concerning what the general public finds of greatest value in the nation's postal service.
- b. Please specify all aspects of the nation's postal service that the general public finds to be of negative value, and cite the source of all information on which you rely to support the findings of negative value.

RESPONSE

See my answer to VP-CW/ABA/EEI/NAPM-T1-8.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we'll move to oral
5 cross-examination. Two parties have requested oral
6 cross-examination. The Advertising Mail Marketing
7 Association and the United States Postal Service. Does any
8 other party wish to cross-examine this witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If, not, Mr. Wiggins, you can
11 begin, but let me ask a favor of you. Could you remind your
12 office mate, colleague, Mr. Volner, that we made a switch in
13 his witness Schick?

14 MR. WIGGINS: Absolutely, Mr. Chairman. When is
15 Mr. Schick scheduled to be?

16 CHAIRMAN GLEIMAN: My recollection is Mr. Schick
17 is coming on the 26th, but he should call Mr. Sharfman, and
18 make sure of the date and the time. I know that he and the
19 Postal Service worked something out last week, but I just
20 want to make sure it doesn't slip through the cracks.

21 MR. WIGGINS: I'll remind him when I get back to
22 the office.

23 CHAIRMAN GLEIMAN: I appreciate that. And you can
24 begin your cross-examination when you're ready.

25 MR. WIGGINS: I appreciate that as well. And

1 while speaking of Mr. Sharfman, I'd like to express my
2 appreciation and that of Mr. Volner, and I'm sure I speak
3 for all counsel here, of the really excellent job that the
4 Commission staff has done to try to accommodate the mistakes
5 that all of us have made in the course of this. We made a
6 blunder in designating, for example, the written cross of
7 Dr. Clifton and Mr. Sharfman and the staff were kind enough
8 to make good on that.

9 I think I speak for all counsel when I say "good
10 job" by the staff.

11 CHAIRMAN GLEIMAN: Well, on behalf of the staff I
12 will accept your thanks for their efforts. And, of course,
13 those of us who sit up here know just what a good job they
14 really do and how important they really are. So it's not
15 surprising that they catch occasional mistakes. Which, by
16 the way, when you think of all the paper that's floating
17 around and that we now have 80 plus intervenors in this case
18 and had 40 some witnesses at the start, it's been
19 fascinating that there haven't been a lot more problems and
20 that things have worked as smoothly. And I think that just
21 as you've thanked us, I think that some thanks are due to
22 you and the Postal Service and all the other intervenors in
23 the case also.

24 So it's been a good cooperative effort.

25 CROSS-EXAMINATION

1 BY MR. WIGGINS:

2 Q Dr. Clifton, Frank Wiggins for the Advertising
3 Mail Marketing Association. Is it fair to say that one of
4 the main themes of your testimony is that when costs go
5 down, prices ought not to go up?

6 A In a rate -- regulatory rate setting, they stay
7 the same, Mr. Wiggins. In a free market they would go down
8 as those costs go down in a competitive free market.

9 Q In Table 1 on page 5 of your testimony, as I look
10 at it and read the testimony surrounding it and you're sort
11 of recurring invocation of it makes a lot of the conclusion
12 by your calculation from fiscal year '94 to fiscal year '96
13 the unit attributable costs of presort letters and parcels
14 decreased by 1.3 cents or 10.9 percent; right?

15 A Correct.

16 Q Take a look with me if you would please at table 8
17 of your testimony, which you'll find at page 19.

18 Do you have that?

19 A Yes.

20 Q Table 1 refers to two categories of First Class
21 mail, letters and parcels, on one side, and the second
22 category is presort letters and parcels.

23 Are the nine subcategories of mail denominated on
24 table 8 meant to represent presort letters and parcels as
25 you sometimes use that phrase in your testimony?

1 A Other than column 1, nonpresort zip-plus-four
2 letters, I think that would be correct, Mr. Wiggins.

3 Q Okay. So the eight columns to the right of that
4 are what you refer to as presort?

5 A Well, they're not what I refer to as presort.
6 They're what the Postal Service and the cost-and-revenue
7 analysis refers to. I simply adopt table 1 as simply a set
8 of numbers that comes from the cost-and-revenue analysis
9 produced by the Postal Service. The Postal Service
10 aggregates presort into that level of aggregation, and I
11 believe these are the components; yes.

12 Q And they're all the components? There are no
13 others?

14 A Presort letters and flats I believe is the CRA
15 classification.

16 Q I understand, but if we look at table 8,
17 everything to the right of the first column represents stuff
18 included in table 1 under presort; is that right?

19 A I believe that's correct, Mr. Wiggins, but I do
20 not have a copy of the detailed cost-and-revenue analysis
21 with me.

22 Q In your --

23 A So I would say subject to check; yes.

24 Q Sure. And in your understanding, subject to
25 check, are there any other rate categories other than the

1 eight to the right of nonpresort zip-plus-four on table 8
2 that are included in the CRA calculation of unit
3 attributable costs that you see on your table 1?

4 A I do not believe so, but I would need to go back
5 and double check.

6 Q Okay. And you testify, Dr. Clifton, that one of
7 the reasons in your appreciation for the fact that the costs
8 of presort mail have decreased over the two-year period that
9 you examine is a different mix of the mail during that
10 period. Do I have that right?

11 A That's certainly one of the ongoing factors, and
12 that factor according to the Postal Service volume
13 calculations continues at least through fiscal year '97.

14 Q Can we -- if you take a look with me at table 8,
15 let me see whether I understand one representation of that
16 mixed differentiation to which you testify. Look with me at
17 the column titled Presort Nonautomation. Do you have that?

18 A Yes.

19 Q The third one over --

20 A Yes.

21 Q From the left. And it shows one that from 1988
22 where that variety of mail -- and correct me if I'm reading
23 the table incorrectly -- comprise 70.8 percent of all First
24 Class presort mail; is that right?

25 A Correct.

1 Q Until 1998 projected, it'll be 13 percent of that
2 mail?

3 A Correct.

4 Q A precipitous decline.

5 A Correct.

6 Q Is that true?

7 A Yes.

8 Q And if you look two over to Automation Three-Digit
9 Letters --

10 A Correct.

11 Q In 1988 there was none of that. Or it comprised
12 zero percent of the First Class presort mail stream or
13 work-shared mail stream.

14 A Correct.

15 Q And in 1998 it's projected that it'll be almost 50
16 percent of that mail stream; is that right?

17 A That's correct.

18 Q Okay. From the Postal Service's perspective, is
19 presort nonautomation mail, the first category about which
20 we were just talking, more or less costly to deliver than
21 automation three-digit?

22 A To deliver?

23 Q Well, in its life in the mail stream, its total
24 costs to the Postal Service. Are they greater or less than
25 the costs associated with automation three-digit letters?

1 A I'm not sure how to answer your question, Mr.
2 Wiggins, because I'm no sure what you're including at all in
3 your definition of cost.

4 Q All of the costs of the Postal Service --
5 attributable costs, institutional costs, total cost to the
6 Postal Service.

7 A And what you're asking is whether the automated
8 three-digit presort letter is more or less expensive than
9 the nonautomation presort letter?

10 Q That's correct; yes.

11 A The bar-coded letter sorted to three digits is a
12 less costly letter to produce is my understanding.

13 Q That's an illustration, isn't it, Dr. Clifton, of
14 the differentiation-in-mix phenomenon that you testify
15 about, and the fact that that differential in mix leads to
16 lower costs?

17 A Certainly. That is one of the factors that can
18 lead to lower costs. Work-sharing requirements stemming
19 from reclassification is another factor. Changes in DPS
20 percentages is another factor. Move update requirements is
21 yet another factor.

22 Q I'm sorry, you said changes in E, I just didn't
23 hear the acronym?

24 A Changes in DPS percentages.

25 Q DPS? Thank you.

1 In your response to Postal Service Interrogatory
2 No. 8, and if you could get that in front of you it would be
3 helpful, I suspect. And I'm looking particularly, Dr.
4 Clifton, at the second page of that, the paragraph that
5 begins, "I also examined".

6 A "I also examined", yes, uh-huh.

7 Q Okay. You say there that you looked at the CRA
8 and you were particularly examining labor costs and you
9 looked at labor costs both direct labor costs and then labor
10 costs with overheads?

11 A The overhead is labor though.

12 Q No, no, I understand. But labor without overhead
13 and labor with overheard.

14 A Labor with labor overhead and labor without labor
15 overhead; right?

16 Q We're laboring here. And you testified that in
17 the second instance which is the one -- you became persuaded
18 that it was correct or more correct to examine labor costs
19 with labor overhead over the period under your examination;
20 is that right?

21 A Yeah. It was a difficult decision because it was
22 hard to -- I initially looked at direct labor only believing
23 that in USP Witness Alexander, which is testimony, and in
24 light of Mr. Bradley's study which assumes less than 100
25 percent volume variability for mail processing labor that

1 Mr. Alexander's numbers were based on -- his base-year 1996
2 numbers were based only on direct labor. But it became
3 clearer over the research process that they included
4 overhead labor. So I later began to focus on looking at
5 cost dynamics for first-class work shared mail including
6 mail processing direct as well as overhead labor.

7 Q And what you found when you were looking at the
8 labor costs with labor overhead for the period '95-96 was a
9 unit cost decline of 1.1 percent; right?

10 A Correct.

11 Q And yet as you explain here, when you calculated
12 your determination that the Commission ought to adopt a
13 negative 3.6 rolled forward factor you combined both the
14 '95-96 cost decline of 1.1 percent and the '94, '96 cost
15 decline of 12 percent. Why did you meld those numbers? Why
16 didn't you just take the most recent number, the '95-96
17 number, the 1.1 percent?

18 A Well, in looking at the mix of all the different
19 percentages, both direct labor percentages which I place a
20 little more faith in than overhead percentages, particularly
21 with that labor refugee for mail processing sloshing around
22 within the Postal Service became clear to me judgmentally
23 that if we were to look on a going forward basis at the
24 impact of mail reclassification changes, which formally came
25 in to being only in July 1 of 1996, most of those would

1 happen during the fiscal '97 and partly into fiscal '98.
2 And it seemed to me rather than looking at just the most
3 recent year, and looking at a roll-forward factor, that
4 giving some weight, a relatively minor weight, Mr. Wiggins,
5 but giving some weight to the overall two-year percentage
6 cost behavior made more sense than giving all the weight
7 just to one year.

8 And I, for example, adopted the Postal Service's
9 -- in essence, the Bradley Procedure of less than 100
10 percent volume variability and just use the direct labor
11 only component for my roll-forward factor. It could have
12 been anywhere between 2.8 percent and 5.5 percent. But I
13 stayed neutral on that issue and emerged with what I think
14 is a very conservative 3.6 percent.

15 Q When you say you stayed neutral on that issue, you
16 did use 100 percent volume variability; didn't you? As
17 opposed to the Bradley analysis?

18 A The base year number that I used is the
19 Alexandrovich methodology which factors in the Bradley
20 testimony. But by including direct and overhead labor I, in
21 essence, used 100 percent volume variability.

22 Q Right. Now, you say that you're use of the
23 two-year old, the '94-95 data had a modest effect. It took
24 the number from 1.1 to 3.8, did it not? It multiplied it by
25 more than three?

1 A It changed the roll forward factor. I weighted
2 1.1 percent by 75 percent and I weighted the FY-94 to '96
3 change by only 25 percent. And the simple weighted average
4 of that is 3.8 percent.

5 Q Well, the resultant number, Dr. Clifton, moved
6 from 1.1 which is what it would have been had you used only
7 the one year to the 3.6 --

8 A Well, Mr. Wiggins, I wouldn't characterize the
9 intellectual process I went through as saying 1.1 was
10 correct and I suddenly had to move that up from 1.1. 1.1 is
11 only a one-year figure. It makes sense in the kind of
12 forecasting exercise I was doing to look at the two most
13 recent years, not just the single year number, particularly
14 if we're dealing with a trend here which I believe we're
15 dealing with, and that was the procedure that I adopted.

16 I suppose I could have adopted a minus 25 percent
17 roll-forward factor, based on the volume mix shifts that you
18 were talking about earlier. But indeed I didn't. I largely
19 formally rejected that exercise in my roll forward of minus
20 3.6.

21 Q Your revised answer to Postal Service
22 Interrogatory No. 4 if I understand it in conjunction with
23 your answer to No. 8 here, it represents the numerical
24 analysis that flows out of your negative 3.6 roll-forward
25 factor; is that right?

1 A It represents that weighted average that I talked
2 about earlier based on the minus 3.6; yes, sir.

3 Q And one sees that in the .9737 number down at the
4 bottom of the first page of that answer; is that right?

5 A If you'll bear with me for a moment --

6 Q Sure.

7 A I'll find the answer.

8 Q It's the attachment actually to the answer.

9 A That's the figure at the bottom of that page.

10 Q Um-hum. And that's what reflects the negative
11 3.6; is that correct?

12 A That's the ratio to escalate to the test year;
13 correct?

14 Q And what is it in that calculation that drives
15 that number? If you can just sort of explain to all of us
16 how the calculation was done.

17 A What's driving the minus 3.6?

18 Q That's correct; yes.

19 A Well, formerly I've told you how I arrived at it,
20 but it's a judgment based on recent unit-cost declines in
21 First Class work-shared mail since the last rate case. It's
22 a judgment based on a calculation of --

23 Q I'm sorry to interrupt you, Dr. Clifton, but I'm
24 trying to ask a much more narrow question than that. I'm
25 just trying to understand the arithmetic on that page.

1 A The arithmetic on that page is, if you look at the
2 unit-cost figure for base year 1996 --

3 Q That's a given.

4 A 2.7674. That's given by the Postal Service.

5 Q That's a given number; correct?

6 A Right. And I roll that forward into test year
7 1998 --

8 Q By subtracting from it the .0906, .0996, correct?

9 A That's right. And what amounts to a minus
10 3.6-percent roll-forward factor. Correct.

11 Q But the negative 3.6 is a comparison between the
12 two cost -- total costs figures, is it not?

13 A Mail processing unit costs; not total cost
14 figures.

15 Q Right. The one that's calculated by multiplying
16 your reduced cost figure number by total volume with the
17 total cost figure number given to you by the Postal Service;
18 is that right?

19 A We did rely upon base year 1996 Postal Service
20 estimated costs; yes, sir.

21 Q But when you get down to the actual calculation,
22 Dr. Clifton, under the heading Historical Changes in Unit
23 Costs --

24 A Yes.

25 Q Down toward the bottom of the page. Right?

1 A Yes. It might help, Mr. Wiggins, if you look at
2 the first two numbers on that, minus .0996. That's applying
3 the minus 3.6-percent roll-forward factor between base
4 year -- Postal Service base year '96 and postal fiscal year
5 '97, we then arrive at a new unit cost from that. And going
6 forward from -- we then take that base year 1997 and make
7 another minus 3.6 roll-forward adjustment to test year '98,
8 and you can see that our weighted historic change as
9 projected to -- from '97 to '98 is another minus .0960
10 cents.

11 Q And you add those two numbers together, you
12 subtract them from the base year '96 unit cost number;
13 correct?

14 A Um-hum.

15 Q And you get a projected '98 unit cost number; is
16 that correct?

17 A That's what it -- yes, 2.5718 cents.

18 Q Right. And you multiply that by the volume, which
19 is a number given to you; right?

20 A The -- yes, that is a number.

21 Q Um-hum. Well, it's certainly a number, but is it
22 a number given to you or a number that you calculated?

23 A That is a number that is an input of the model.

24 Q So that number is adjusted by the cost number; is
25 that correct?

1 A I don't know what you mean by that number is
2 adjusted by the cost number.

3 Q Well, do you employ Dr. Tolley's elasticities to
4 determine what the volume will be at any given unit cost?

5 A We use the Tolley and Thress model throughout,
6 including all the elasticities.

7 Q But the Tolley model does not operate on projected
8 unit costs, does it?

9 A The Tolley model, Mr. Wiggins, is a volume model.
10 The cost models are a separate module that are CRA-based.

11 Q I am just trying to understand how your model, Dr.
12 Clifton, adjusts volume on the basis of your various
13 calculations of a portion of mail processing, a portion of
14 total unit costs. How does that work?

15 A Oh, Mr. Wiggins, I am just not sure what you are
16 asking here.

17 This is exactly the same procedure as detailed in
18 the answer to "4" in estimating mail processing unit costs,
19 exact same procedure as used by USPS Witness Hatfield in the
20 Postal Service's proposals -- exactly -- and the only
21 difference between our approach and USPS Witness Hatfield's
22 approach is rather than use an indefensible posit of 7.1
23 percent roll-forward factor to the test year, we have used
24 one based on a whole lot of empirical work as well as
25 judgments and arrived at a minus 3.6 percent roll-forward

1 factor to apply to those base year 1996 mail processing unit
2 costs.

3 Q Did your determination -- I am talking again just
4 arithmetically -- I am trying to understand how the numbers
5 on that answer to "4" shift around -- did your determination
6 of the 3.6 affect the unit costs that are reflected there?

7 A Certainly, and those are there, Mr. Wiggins.

8 That is what a roll-forward factor is, Mr.
9 Wiggins.

10 Q So that once you determine what the appropriate
11 roll-forward factor is, you have determined what the unit
12 costs will be, is that right?

13 A Yes. If you go to Library Reference 106, and
14 allied Library References, you can see the procedure that
15 the Postal Service uses for arriving at all these numbers.

16 Q Your answer to Postal Service Interrogatory 4
17 contains a display that to my examination is significantly
18 similar to what is presented as Exhibits B-1 and B-2 to your
19 testimony, am I right in that?

20 A That is correct, Mr. Wiggins.

21 Q And if you look at B-1 and B-2 you come out with
22 significantly different bottom lines, if you would, there --
23 that ratio to reflect the roll-forward amount, is that
24 right?

25 A Yes. Those appendices are presentations of our

1 earlier runs, different ways of looking at the dynamics
2 through Test Year 1998 of mail processing unit costs.

3 I think of the three that you are looking at now,
4 we adopted by far the most conservative one.

5 Q So one could think reasonably enough about your
6 answer to Postal Service 4 as being B-3? It is a third
7 version of the same thing represented in B-1 and B-2?

8 A No. It's really not. As I explained in my answer
9 to USPS Number 8, if you look at Table 9 in my testimony,
10 Mr. Wiggins, you will see that some of the numerical
11 calculations for those different alternatives are
12 summarized.

13 The roll-forward factor just based on my
14 elasticity calculation, shifting volumes would lead to a 25
15 percent decline --

16 Q While we're thinking about it, let's look at your
17 Table 9, could we, Dr. Clifton?

18 A Okay.

19 Q Just so we are all clear on where these various
20 things fit together.

21 A Yes.

22 Q The two column labeled "Changes in Unit Cost Based
23 on USPS Test-Year Volume Mix Shifts", do you have those?

24 A Yes.

25 Q That's essentially a reflection of B-1; is it not?

1 A Yes, it is.

2 Q And the next two columns over, that travel under
3 the label, "Historical Changes in Unit Cost, '94 to '96
4 Continue" that's a reflection of B-2; is it not?

5 A '94 to '96 Continue, yes, it is.

6 Q And "Weighted Historical Changes in Unit Costs,
7 '94-96," the last two columns to the right of that page,
8 that's a reflection of your answer to USPS-4; is it not?

9 A Yes, but if you look at the footnotes to that
10 table, Mr. Wiggins, you'll see that there's a fundamental
11 difference between the first two approaches and the third
12 approach. In the first two we are simply looking at mail
13 processing direct labor only. And in the third and final
14 one that we actually adopted as the formal procedure of my
15 testimony, that's based on mail processing, direct labor and
16 overhead.

17 Q I understand, but the three approaches are
18 reflected in respectively B-1, B-2, and your answer to
19 Postal Service 4, that's where one sees the calculations
20 that lead to these numbers; is that correct?

21 A In part, yes. Uh-huh.

22 Q Well, tell me what I'm missing? What part wasn't
23 there?

24 A There are portions -- these are complex models,
25 Mr. Wiggins, and there are elements from technical

1 Appendices A that feed into B, there are elements from
2 technical Appendix C that --

3 Q I have struggled to understand those
4 interrelationships, Dr. Clifton, and maybe you can help me
5 out a little bit. I was particularly enchanted with
6 technical Appendix A-4. Do you have that?

7 A Is there a page reference you would like me to --
8 Appendix A-4?

9 Q There's only one, page 1 of 1.

10 A Our elasticity calculation?

11 Q Yeah, and I want to understand it better, but
12 first I'd like to understand. You say -- is this one of the
13 pieces of technical Appendix A that bleeds into B-1, B-2, or
14 your answer to USPS-4?

15 A It bleeds into -- to borrow your terminology, Mr.
16 Wiggins, it's the basis for technical Appendix B-1, the
17 elasticity number that's calculated there.

18 Q I see that number reflected in page 1 of 11 of
19 B-1. Do you have that?

20 A B-1, page 11?

21 Q No, page 1 of 11.

22 The third row under the heading, "Continuing
23 Movement to Automation in First Class" is labeled
24 "Elasticity of First-Class Mail Processing Unit" and has the
25 number that is calculated up at the top of A-4, page 1 of 1;

1 is that right, the .4558?

2 A That does appear on page 1 of 11 of technical
3 Appendix B-1, yes.

4 Q It sure does appear, but how is it used?

5 A The elasticity is used to move forward the base
6 year unit processing cost to test year. That elasticity is
7 basically used in a multiplicative way and we end up -- it
8 amounts to about a 25 percent roll-forward factor.

9 Q So in this instance, in B-1, what drives the
10 bottom line, the ratio to escalate to test year --

11 A Uh-huh.

12 Q -- is not your judgment, but something else?

13 A It is -- the calculation of elasticity is based on
14 judgmental considerations. All numerical work is based on
15 judgmental considerations. And we took a look at recent
16 year shifts in the automation to non-automation -- rather
17 non-automation to automation shift. We looked at the Postal
18 Service projections of that through Fiscal Year '97 and we
19 calculated an elasticity based on the recent historical
20 shifts and we then applied that to the Postal Service
21 estimates of the continuing volume shift in Fiscal '97. And
22 from that we made our unit cost projections in technical
23 Appendix B-1.

24 Q Gee, I'm having trouble detecting all of that in
25 A-4. Turn back to that. Maybe you can take us through it

1 slowly and explain where all those marvelous things happen.
2 And let's just start out -- I'm sorry to be tedious about
3 this, Dr. Clifton, but you have a tedious lot of numbers
4 here and I need to understand them. The very top of the
5 page, you have two columns, one called direct labor unit
6 costs -- that's labelled 1 -- and then, next to it,
7 non-automation share, column 2.

8 A Yes.

9 Q Where do the numbers in 1 come from?

10 A The numbers in column 1?

11 Q Yes. Those are CRA numbers, right?

12 A Yes, Mr. Wiggins. The source of those is
13 labelled quite clearly on the page if you look --

14 Q I understand, but I --

15 A -- at sources. The first column says first class
16 work-shared mail processing direct labor unit costs. It's
17 sourced as column 1, and the sources down below say USPS
18 cost and revenue analysis, fiscal year '94, '95 and '95. So
19 that is the source of those numbers.

20 Q And what you do with those numbers is to measure
21 the percentage of change between '94 and '96, correct, and
22 that's how you get the 13.91 number?

23 A That's exactly what it says in the page, Mr.
24 Wiggins, yes.

25 Q Okay.

1 A Percentage change 1994 to 1996.

2 Q Well, you don't need to read it to me; I can read
3 okay.

4 A Well, I'm wondering -- I'm sorry, but I'm
5 wondering why we're going along this line of questioning,
6 because you are -- we're in essence -- you're restating here
7 what is --

8 Q So that we're all --

9 A -- evident on the page.

10 Q So that we're all clear about it, Dr. Clifton.

11 Then in column 2, you likewise take -- and this is a
12 phenomenon that we witnessed when we were looking at your
13 table 5, right? Or, I'm sorry, your table A. You're saying
14 that the non-automation share of work process mail goes down
15 between '94 and '96, right?

16 A That is what it shows, yes.

17 Q Yes.

18 A From about 41 percent to about 29 percent.

19 Q And you make a percentage out of that difference,
20 correct, to get to the 30.51?

21 A Yes. That's the percentage change in the
22 non-automation share from '94 to '96.

23 Q Okay. So we've got two percentages, 13.91 and --

24 A Right.

25 Q -- 30.51 representing respectively the decrement

1 in measured unit costs, labor unit costs, of work-shared
2 mail and the proportion of that mail that is non-automation.
3 Both of those go down over time.

4 A Yes. As the non-automation share goes down, unit
5 costs go down.

6 Q It's precisely the phenomenon that we talked about
7 in application to your table 8, is it not? Where you see
8 stuff shifting --

9 A That was table 7, Mr. Wiggins, but yes. Table 8
10 was a discussion of the shifts in shares that you talked
11 about originally.

12 Q I'm looking at table 8 on page 19, Dr. Clifton.
13 That's the one I was talking about.

14 A Okay.

15 Q It shows the differentiation over time in shares
16 of first class work-shared mail, and the two columns that we
17 were talking about were non-automation and automation three
18 digit. I just want to be clear that we have the same things
19 in mind here. Are you with me?

20 A Well, Mr. Wiggins, if you'll bear with me, I'm
21 turning back to table 8.

22 Q Yes. And it's a burdensome thing, Dr. Clifton.
23 There are lots of different tables and they interrelate in
24 ways that are occasionally mysterious to me, and that's part
25 of what I'm trying to understand here.

1 A You're correct, Mr. Wiggins, it's table 8 that
2 we're looking at.

3 Q Okay. And then back on A-4, you have examined
4 these two phenomenon, the decrement in price and the
5 increase in automation share, if you would; is that right?

6 A Correct. Yes.

7 Q And then you make what you call an elasticity
8 factor, which is a ratio of the ratios, correct?

9 A Well, Mr. Wiggins, an elasticity by definition is
10 one percentage change divided by another percentage change
11 where, from economic theory, we believe there to be a
12 relationship between the two percentage changes, and what
13 emerges is a pure number which we refer to in economics as
14 an elasticity.

15 Q Which is .4558?

16 A Correct.

17 Q In this case.

18 A In this case, yes.

19 Q And the way that you use that number, if I
20 understand it correctly, reflects a belief that the
21 relationship between cost decreases seen between '94 and '96
22 and increase in automation as shown between '94 and '96 is
23 going to continue into the test year; is that right?

24 A No, that's not correct, Mr. Wiggins.

25 Q Okay. Say how I'm wrong.

1 A Primarily, if you look at Postal Service Witness
2 Tolley and Thress' work, they show a continued precipitous
3 decline in the non-automation share of first class
4 work-shared mail through test year 1997, and then there's
5 not a whole lot left to shift. There's a little bit, but
6 it's mainly being driven through 1997 and we apply that
7 elasticity to that continuing shift and out pops our decline
8 in unit mail processing costs as a result of combining that
9 elasticity with the projected volume shift that the Postal
10 Service has entered into this case.

11 Q So you alter the volume shift anticipated by the
12 Postal Service --

13 A Not at all. No. We --

14 Q How does your elasticity work? I'm just trying to
15 understand how the heck it works.

16 A Well, I think I just gave an answer to that, but
17 let me try to explain a little further.

18 We have an elasticity which relates the change in
19 volume shifts between non-automation and automation mail
20 within first class work-shared to percentage changes in unit
21 mail processing costs. We have that elasticity number from
22 recent history. We take from the Postal Service what the
23 estimated shift in volumes are into the test year, but most
24 of that effect, keep in mind, happens in fiscal year '97,
25 and we then combine that with the elasticity to calculate

1 what the change in -- percentage change in unit mail
2 processing costs are, and that just happens to work out,
3 applying that elasticity and the volume numbers supplied by
4 the Postal Service, to about a 25 percent negative -- 25
5 percent roll-forward factor.

6 Q Which you don't endorse.

7 A No. It struck me as being very, very high and I
8 think it's possible, but I did not use that in any way other
9 than a judgmental way. If you will, and if you take a look
10 at another part of my answer to USPS-8, I think the minus 25
11 percent roll-forward factor, I think in my testimony what it
12 lends credence to is that if the volume shifts as projected
13 by the Postal Service are correct, to have put forward a
14 positive plus 7.1 percent roll-forward factor for first
15 class work-shared mail processing unit costs does not look
16 very credible in light of those volume mix shifts. That's
17 its main purpose.

18 Q Sure. But --

19 A But I didn't formally use it in my 3.6; it just
20 entered in a qualitative or judgmental way. It's a large
21 negative number and it gives credence to a negative -- it
22 gives believable to any negative roll-forward factor, and it
23 sure makes the minus 3.6 look very conservative.

24 Q It gives believability, I think is your word, it
25 gives believability to a negative number even though -- I

1 take it you're saying a 25 percent decrement is not
2 believable in your mind.

3 A No. One has to use judgment. These are serious
4 proceedings and the Postal Service in the future has to
5 cover its costs, and if I were in the shoes of a financial
6 planner, I certainly wouldn't go forward with a minus 25
7 percent figure even if I believed it. So I did not use it
8 formally. But I think it is part of the evidence that it's
9 useful for the Commission to hear. It's ultimately the
10 Commission that makes these decisions, and I've put forward
11 in my testimony all manner of different calculations, some
12 of which I formally relied on, others which I didn't
13 formally rely on. But it's up to Commission and the staff
14 to decide what's correct.

15 Q You also indicate in your answer to No. 8, I
16 think, that you needed to make some changes. This drove
17 some changes in C-1, is that correct, Technical Appendix
18 C-1?

19 A I am not sure.

20 Q There were some mistakes in any early -- the
21 iteration, actually, of your work that was filed, because
22 they employed a 2.8, negative 2.8 percent roll-forward
23 factor.

24 A Yeah, there was an editing mistake make in
25 adopting a minus 2.8 percent roll-forward factor based on

1 just direct labor only.

2 Q Exactly. And that needed to get to be a bigger
3 number when you included labor plus overhead, is that right?
4 Because labor --

5 A I don't know what you mean needed to get to be a
6 bigger number.

7 Q Well, in your judgment?

8 A Excuse me.

9 Q In your judgment, what made your judgment change
10 between the facts that informed you that a negative 2.8
11 roll-forward was a good plan, and your subsequent decision
12 that a negative 3.6 roll-forward was the right number?

13 A Well, Mr. Wiggins, I didn't have a plan. I had a
14 path of research and the research was based on a lot of
15 complex factors. If you go back, I may not have had the
16 final results on some of the elasticity calculations when I
17 was calculating the minus 2.8. I would have to go back -- I
18 would have to go back and look at my notes.

19 But the main reason that the 2.8 percent as a run
20 was rejected has nothing to do the with number minus 2.8
21 versus 3.6. It has to do with the fact that in the process
22 of research it became clearer Alexandrovich was using a
23 direct labor plus overhead number.

24 Q Right. And when you changed your calculations in
25 order to reflect your new understanding that Alexandrovich

1 had included not just direct labor but direct labor plus
2 direct labor overheads, what happened to the cost number?

3 A Which cost number, Mr. Wiggins?

4 Q The mail processing cost numbers that you used in
5 your calculations, they went up, did they not, Dr. Clifton,
6 when you included direct labor overheads as well as direct
7 labor? We have seen that.

8 A No, the costs are falling throughout, Mr. Wiggins,
9 so I don't know what you mean by costs going up.

10 Q If you look at two numbers, Dr. Clifton, and let's
11 take the year 1996, and compare the number employed in your
12 various B-1, B-2, et cetera, the labor, the number that is
13 included as the mail processing labor unit cost, would it be
14 higher or lower after you made the adjustment to include
15 overheads as well as direct labor costs?

16 A Are you talking about a one year change, or a
17 smooth change or --

18 Q I am talking about a single year.

19 A The --

20 Q 1996.

21 A The 1996 mail processing unit labor cost,
22 including overhead, would be a negative 1.1 percent. It
23 would be lower than the base year fiscal 1995 number.

24 Q Now, I want to take a look at the same number in a
25 single year, 1996.

1 A Okay.

2 Q Labor -- mail processing labor cost, and you had
3 two of those, correct? You had one before you realized the
4 Alexandrovich inclusion of overheads and one after you
5 recognized the Alexandrovich inclusion of overhead, is that
6 right?

7 A I'm sorry. I understand your question now, Mr.
8 Wiggins. If you are asking -- if the question you are
9 asking if we used direct labor only as a measure of mail
10 processing unit costs for 1996, they are a little bit lower
11 than if we used mail processing labor plus over head labor.

12 Q Sure.

13 A Yeah.

14 Q And we have actually looked at those numbers a
15 little bit.

16 A Sure.

17 Q A little bit earlier.

18 A Sure.

19 Q So that in your analysis, when you went from using
20 a lower cost number, the non-overhead inclusive cost number,
21 --

22 A Right.

23 Q -- to a slightly higher cost number, that which
24 included overheads, you made the determination that one
25 needed a larger negative roll-forward, is that right?

1 A No, that's just a complete mischaracterization of
2 my intellectual process, Mr. Wiggins. What I noticed for
3 fiscal '95 to '96 is that there was a dramatic difference in
4 the percentage change for the number using mail processing
5 direct labor only versus mail processing direct plus
6 overhead. It was 2.8 versus 1.1. That is a big difference.

7 If you look at fiscal year '94 though '96 -- will
8 you bear with me for a moment while I get those percentages?

9 Q Sure. They are in your answer to No. 8. They are
10 in the very paragraph that I asked you to examine when we
11 started here. Right? The 2.8 and 1.1.

12 A Right. I just want to get some percentages here
13 for you.

14 Q Sure.

15 A So, as I understand it, you are trying to figure
16 out what intellectual process I went through in arriving at
17 3.6.

18 Q No, I was just --

19 A And that is what I am trying to be responsive to.
20 If you look at --

21 Q I was just asking you to confirm that when the
22 cost basis that you employed in your analysis went up, your
23 judgment commended that the roll-forward negative percentage
24 should be larger? That's all I am asking.

25 A No, I don't think that is an accurate

1 characterization. If you look at the percentage change in
2 unit mail processing labor costs using direct labor only
3 between FY '94 and '96, you will see that they are minus
4 13.9 percent, and if you use direct labor plus overhead,
5 they are minus 12 percent. The two numbers, the two
6 magnitudes are relatively close to each other.

7 Q Well, but the first --

8 A And if you go back another time series, you will
9 see that too. So there is a bit of an aberration between
10 Fiscal Year '95, '96 numbers that you are focusing on,
11 between the minus 2.8 percent in direct labor, and the minus
12 1.1 percent in direct labor plus overhead. There is --
13 percentage-wise, there is a much bigger gap, Mr. Wiggins,
14 between that minus 1.1 and the 2.8 than there is between the
15 12 and the 13.9.

16 And that leads a researcher and a statistician to
17 wonder about whether there isn't some anomaly in the minus
18 1.1. And in the event there does appear to be an anomaly
19 there, I went to a weighting procedure where I largely used
20 the minus 1.1 but I also factored in a smoothing procedure,
21 if you will, giving some weight to the FY '94 to '96
22 numbers.

23 You see, the minus 1.1 just doesn't --
24 statistically is so far off from the 2.8 relative to other
25 time periods that you look at that it calls into question

1 whether the minus 1.1 is at all accurate.

2 Q So you disbelieve that number?

3 A Excuse me?

4 Q So you disbelieve that number?

5 A No. The process of belief in this process is a
6 difficult one of shifting and winnowing a lot of numbers and
7 then coming up with judgments. There is no single number
8 here or single calculation that I used to arrive at the
9 factor.

10 Q Well, I'll certainly give you credit for lots of
11 shifting and winnowing and lots of numbers, Dr. Clifton.

12 You suggested in part of your answer to my last
13 question that you had looked at a time series other than the
14 '94 to '96 time period?

15 A Well, no. When I was referring to time series, I
16 am referring to '94 to '95, '95 to '96, '96 to '97 and so
17 forth, although we don't have formal CRA data for '97 yet.

18 Q What actually did you use in the absence of formal
19 CRA data to do your roll-forward for '96? That was kind of
20 a mystery to me in this presentation?

21 A What do you mean what did we use? We used base
22 year factors.

23 We used the same procedure that the Postal Service
24 used. We used base year 1996 CRA data as modified in
25 Witness Alexandrovich's testimony and we roll that forward

1 to '97 and we then take that base year, as I mentioned
2 earlier, Mr. Wiggins, and we roll that forward to test year
3 '98, so the year 1997 is kind of an intermediate step, if
4 you will.

5 Q In your Table Number 14, Dr. Clifton, which is on
6 revised page 33, of your testimony -- do you have that?

7 A Yes, I have it, Mr. Wiggins.

8 Q You give us mail processing costs of which there
9 is abundant evidence in your testimony -- indeed, there are
10 lots of different mail processing cost numbers -- depending
11 on the analytic assumptions involved, is that right?

12 As one goes from B-1 to B-2 to the answer to
13 Postal Service 4, you see different sets of mail processing
14 costs, correct?

15 A There are a variety of Test Year 1998 costs,
16 consistent with different runs of the model

17 The ones you are referring to here on page 33 --

18 Q These are the answers to Postal Service 4,
19 correct, the mail processing numbers that you have here?

20 A The mail processing numbers that I have here are
21 consistent with the ones in the answer to USPS Number 4,
22 that's correct.

23 Q Well, they are the same numbers, as opposed to the
24 numbers that one would see in B-1 or B-2, which are
25 different?

1 A Yes. B-1 and B-2 are runs of models that were not
2 formally adopted and that is stated throughout my testimony.

3 Q Yes, and we went through that in looking at Table
4 9, the difference in the two assumptions?

5 A Right.

6 Q And those, as I say, are presented in excruciating
7 detail. Where do the delivery cost numbers that are here on
8 Table 14 come from? You say down in your source note, B-1
9 and B-2. We know that not to be right because it is
10 actually the answer to Interrogatory 4, but I don't see
11 anyplace in any of those three documents delivery cost
12 numbers.

13 Where did those come from?

14 A The delivery costs, Mr. Wiggins, are developed in
15 my testimony at an earlier stage and you will see that those
16 delivery costs are also developed and the methodology for
17 them, the adjustment to Witness Hume's roll-forward is
18 listed in one of the Technical Appendices, A.

19 Q Can you point me to that, please?

20 A To the part of my testimony where I develop
21 delivery costs?

22 Q Yes. I mean there is delivery cost stuff in A-3.
23 There is a lot here and I am not trying to make this hard,
24 Dr. Clifton.

25 There is an adjustment to delivery costs or there

1 is a volume-weighted delivery cost shown in A-3 --

2 A Yes.

3 Q Is that what you are talking about?

4 A Yes. If you'll look at my testimony, the direct
5 testimony beginning at page 11, I develop my delivery costs
6 there and you will see at page 14 of my testimony, and I'll
7 quote, Mr. Wiggins, in Table 6 I make such an adjustment --
8 the adjustment that I make, the delivery cost to Witness
9 Hume, based on my calculation of forwarding cost savings
10 from Technical Appendix A-2, it's on lines 4 and 5 of my
11 testimony.

12 Q I was alert to that, but I was having difficulty
13 meshing that with the other numbers, but let's not trouble
14 too much over that level of detail.

15 On your Table 14, if I can get it back in front of
16 me here, you show what you call corrected combined costs.

17 You then move over to Table 15 and show us
18 corrected discounts.

19 Are the corrected discounts on Table 15 calculated
20 from the corrected combined costs on Table 14?

21 A Yes.

22 Q And how are they calculated? Did you use a
23 benchmark?

24 A They are calculated using the Postal Service's
25 model cost methodology.

1 They are based on exactly the same methodology as
2 the Postal Service used.

3 Q The Postal Service in calculating discounts, as I
4 understand the methodology, used a benchmark number, did it
5 not? -- a benchmark number that you discredit in your
6 testimony?

7 A That is correct, but I think legally the discounts
8 are always figured from the single piece stamp rate.

9 Q Did you use in moving from a cost number, Table
10 14, to a recommended discount number on Table 15 --

11 A Those are not my recommended discount numbers, Mr.
12 Wiggins.

13 Q I'm sorry, let me characterize them as you did --
14 "a conservatively corrected discount number" -- and you tell
15 me that was derived from the cost numbers, right?

16 A That's correct.

17 Q And I am just trying to get straight on how you
18 did the arithmetic.

19 Did you use a benchmark number, and if so, what
20 was it?

21 A Mr. Wiggins, you can look at the difference in
22 Table 14 between my corrected combined cost and the USPS
23 cost that is also in that, and if you look at the difference
24 in that, that is the basis for my change from the USPS
25 discount structure.

1 Q So you simply took the difference between your
2 costs and the Postal Service costs and used that difference
3 to change the discount number; is that right?

4 A Well, that's an approximation. I think that I'm
5 trying to help walk you through this in a way that's --

6 Q Lord knows, I welcome your help, Dr. Clifton,
7 because I've been sloshing through this on my own, and I'm
8 looking for assistance in understanding what you did. And
9 do I have it correct that what you did was to change the
10 conservatively calculated discount number by the difference
11 between your calculated cost and the Postal
12 Service-calculated cost?

13 A Yes. Fundamentally that's correct.

14 Q Okay. And when one gets over to table 16 --

15 A Um-hum.

16 Q And these are your proposed discounts; correct?

17 A These are my proposed discounts; that's correct.

18 Q And the way these are calculated is to employ the
19 Rate Commission's '95 methodology, which instead of using
20 bulk metered mail --

21 A Um-hum.

22 Q Used single-piece mail as a benchmark, but then
23 discounted the cost differential by a factor of 78 percent
24 in calculating the discount; right?

25 A For basic automation; yes, sir.

1 Q Yes. And you show us how you get to the basic
2 automation number, and it's that calculation that I just
3 said in words, the 6.7885 cents.

4 A Um-hum. Yes.

5 Q And then to get down, just so I'm sure that you
6 did this the way that it seemed arithmetically to me that
7 you did, to get down to the three-digit discount, you took
8 the cost difference from table 14 --

9 A Now to get down to the three-digit discount,
10 beyond the basic automation we pass through 100 percent of
11 the differential.

12 Q Of what differential?

13 A The differential unit between basic automation and
14 three-digit.

15 Q The cost difference; right?

16 A That's right.

17 Q From Table 14; correct?

18 A That's right.

19 Q That's what I thought I said. So that on table 16
20 we have proposed discounts, and then we get over to table
21 21. Is that page 42? Which as I understand it calculates
22 rates based on those table 16 proposed discounts; is that
23 right?

24 A Yes.

25 Q Starting with 33 cents and subtracting the

1 proposed discounts in each category to get a rate.

2 A Correct.

3 Q And then -- and the rate there for retail presort,
4 for example, is 30.5 cents, carrying over the 2-1/2-cent
5 discount --

6 A That's correct.

7 Q That you didn't calculate but just took from
8 history; correct?

9 A That's what we stated; yes.

10 Q Well, is that what you did?

11 A I proposed that the retail presort discount be 2.5
12 cents, yes.

13 Q Right. And then one moves over to table 22,
14 where -- that's at page 43 -- where instead of 30.5 cents,
15 the retail presort proposed rate -- and this is your real
16 proposal, is it not, Dr. Clifton?

17 A This table 22 constitutes my rate proposal for
18 rate categories for First Class work-shared mail; that's
19 correct?

20 Q This is what one would see in the revised C-1.

21 A This is what one would see in C-2. C-1 is just --

22 Q I'm sorry, C-2, correct. And we've lost a
23 half-penny at retail presort. And the basis for that, you
24 say in your testimony, is that the cost coverage reflected
25 by Table 21 is just too much, so that you, judgmental, are

1 going to whack it back, is that right?

2 A It is not based --

3 Q You didn't use those words.

4 A It is not based on a personal judgement, Mr.
5 Wiggins. As I explained in my testimony, and further
6 explained in response to Interrogatories, moving that cost
7 coverage down is based on considerations of equity with
8 Standard A commercial mail, and it also based on fundamental
9 issues of economic efficiency.

10 Q And that's not judgmental?

11 A I don't think issues of efficiency are judgmental
12 at all. I think issues of equity can incorporate
13 considerations of judgment among other factors.

14 Q Part of your judgment on page -- is that the
15 decrement in revenue that would be accomplished in First
16 Class work-sharing mail revenue, that would be accomplished
17 by the Commission's adoption of your proposal, there's \$179
18 million bucks, or something in that range, of revenue loss?

19 A Of the rate proposal, or discount proposal, or
20 both integrated? What are you referring to exactly? The
21 number you are citing --

22 Q The proposal contained in this testimony. There's
23 a decrement of revenue. I don't have it in my head, I think
24 it's \$179 million bucks.

25 A There is a decrement of revenue.

1 Q Yes.

2 A Yes.

3 Q And at page 44 of your testimony, you explain to
4 us how you are going to deal with that, and you say let
5 Wiggins' clients pay, effectively, right? Standard A
6 mailers, let them pay. And you say there that you will
7 increase the cost coverage for Standard A mail to 175
8 percent, right?

9 A Yes, I propose -- I propose a modest change in the
10 cost coverage of Standard A mail.

11 Q And then on page 46, you go -- you recur to the
12 same thing, but there you say that the Standard A coverage
13 will be increased to 177.5 percent. Do you have that?

14 A Yes. The difference between the 175 and the 177,
15 for the Commission's purpose, is integrating the proposals
16 in this testimony with the proposals in another testimony of
17 mine.

18 Q Okay. So 175 is the consequence of this one, is
19 that correct?

20 A That's correct.

21 MR. WIGGINS: Mr. Chairman, I have nothing
22 further.

23 CHAIRMAN GLEIMAN: I think we are going to take a
24 10 minute break now and when we come back, the Postal
25 Service will begin its cross-examination of the witness.

1 Let's come back at five of the hour.

2 [Recess.]

3 CHAIRMAN GLEIMAN: Mr. Tidwell, whenever you are
4 ready.

5 MR. TIDWELL: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. TIDWELL:

8 Q Dr. Clifton, good morning. I'm Michael Tidwell,
9 on behalf of the United States Postal Service.
10 How are you?

11 A Fine, Mr. Tidwell.

12 Q I would like to start out by taking a look at your
13 testimony at page 14, and in particular I am interested in
14 the paragraph that begins at line 4.

15 There you testify that the delivery costs provided
16 by Witness Hume for the Postal Service and shown by Witness
17 Daniel in Exhibit USPS-29C, page 1, for First Class presort
18 letters failed to reflect savings due to reductions in
19 forwarding of presort mail which are a consequence of the
20 July 1st '97 move update requirements, is that correct?

21 A I don't think I make all the exact references that
22 you do, but essentially yes, that's what I say.

23 Q And therefore you make an adjustment in your
24 Technical Appendix A-2 to account for this?

25 A That's correct, Mr. Tidwell.

1 Q On pages 14 and 15 of your testimony you show that
2 you have reduced delivery costs per piece for First Class
3 mail by .262 cents per piece to reflect this estimated move
4 up date savings, correct?

5 A Correct.

6 Q And in your technical -- well, let's take a look
7 at your Technical Appendix A-2.

8 A I have it, Mr. Tidwell.

9 Q In that appendix you show that your derivation of
10 the .262 cent figure depends in part on estimates that 2.69
11 percent of First Class mail is forwarded, and that the cost
12 per piece for forwarded mail is 39 cents per piece, is that
13 correct?

14 A Yes, that's what it says. I think it should have
15 said "forwarded or return to sender" -- it's a combination
16 of both.

17 Q Well, are you saying that the 2.69 is forwarded
18 and returned or return to sender?

19 A I'll have to double-check but if you will bear
20 with me --

21 Q Sure.

22 A -- I'll double-check.

23 Yes, that is a UAA percentage, "Undeliverable As
24 Addressed" and for First Class mail, the FY '93 RPW volume
25 figures show 2.69 percent either forwarded or return to

1 sender.

2 Q But your Technical Appendix A-2 purports to
3 represent just the forwarded portion of that estimate?

4 A No, it doesn't. It is intended to represent both.

5 Q And so in your mind there is no distinction
6 between forwarding and -- between mail that is forwarded to
7 an address and delivered and mail that is undeliverable as
8 addressed?

9 A Well, we are trying to measure costs for two
10 processes, Mr. Tidwell -- mail returned to sender, mail
11 forwarded -- mail otherwise forwarded.

12 There are costs and there are different associated
13 with both of those and the 39 cents is an amalgam, an
14 average of the costs for those two processes when an
15 incorrect address is on the letter.

16 I think it works out to something like 23 cents on
17 the forwarded mail and 62 cents on return to sender and our
18 39 cents is an average.

19 Q On the bottom of page 14, and in your table --
20 page 14 of your table -- let's go to page 14 of your
21 testimony and your Table 7.

22 A I have it, Mr. Tidwell.

23 Q And at the bottom of page 14, and in your Table 7
24 on page 16, you contrast the historical changes in mail
25 processing labor costs from FY '94 to FY '96 to the change

1 projected by Witness Patelunas for FY '96 to FY '98, is that
2 correct?

3 A Yes. I am having a little trouble hearing you
4 from across the room. Could you repeat?

5 Q Oh, sure. If we examine the text at the bottom of
6 page 14 and the Table 7 on page 16, what we have there is
7 your contrast of historical changes in mail processing labor
8 costs from FY '94 to FY '96 to the change projected by
9 Witness Patelunas in this case for FY '96 to FY '98.

10 A Correct.

11 Q In developing your historical costs, you developed
12 the percentage change in mail processing direct labor costs,
13 correct?

14 A I -- in some of my tables I do, yes. The note
15 here on Table 7 says that we are using mail processing
16 direct labor, yes.

17 Q And why did you use direct labor costs instead of
18 direct plus overhead or total mail processing costs?

19 A Well, I have tried to be responsive to that in
20 some of your interrogatories and also here this morning.

21 Because of the change in Base Year 1996 cost
22 numbers found in Witness Alexandrovich's testimony as a
23 result of a volume variability study done by Witness Bradley
24 in this case, it was unclear to us once we got into the
25 bowels of the research of our testimony whether the

1 Alexandrovich mail processing cost numbers where he just
2 listed a single number whereas the detailed CRA lists direct
3 labor number and then separately overhead labor number in
4 cost segment 3.1, it was unclear to us whether that single
5 Alexandrovich number after the adjustment from Bradley
6 referred to direct labor only vis-a-vis the CRA or whether
7 it included direct labor plus overhead labor combined as
8 adjusted by Witness Bradley.

9 In the first drafts of my testimony it was our
10 belief that Witness Alexandrovich's base year 1996 mail
11 processing unit cost numbers were direct labor only because
12 of the Bradley study, which says that, in essence, not all
13 mail processing labor is volume variable -- i.e., some of it
14 is not volume variable or is overhead -- and it was that
15 Bradley methodology that in some fashion was imported into
16 the Alexandrovich numbers.

17 But we learned later that it did include the
18 overhead numbers and we made those adjustments.

19 We really only had time in order to file the
20 testimony to make those adjustments including overhead labor
21 in the formal minus 3.6 percent roll-forward factor that I
22 used.

23 We did not go back and do it for all of the other
24 tables.

25 I do believe it was a judgmental factor that

1 direct labor percentage changes are perhaps more germane to
2 true cost behavior within the segment, but we did make the
3 adjustment once we discovered what the Alexandrovich numbers
4 were in fact about.

5 Q Okay. Would you accept subject to check if you
6 were to compare the FY '94 CRA numbers to FY '96 that a
7 total mail processing labor cost for FY '94 is 3.69 cents
8 and for FY '96 it's 3.25 cents?

9 A CRA numbers?

10 Q Yes.

11 A Using which methodology, 100 percent volume
12 variability or --

13 Q Yes. Just the straight CRA.

14 A Subject to check, sure.

15 MR. CORCORAN: Would you repeat those numbers,
16 please?

17 MR. TIDWELL: 3.69 cents for FY '94 and 3.25 cents
18 for FY '96.

19 MR. CORCORAN: Thank you.

20 BY MR. TIDWELL:

21 Q I'd like to direct your attention to page 17, a
22 little formula that you have there on line 9, and I think
23 what you've done there in a simplified sense is you've
24 described the calculation of Witness Hatfield's test-year
25 benchmark for work-shared letters of 4.6 cents; is that

1 correct?

2 A Yes.

3 Q And at lines 4 through 6 on page 17 you indicate
4 that the 1.128 number in line 9 is an assumed roll-forward
5 factor; is that correct?

6 A Yes.

7 Q And this number is not based on any calculation
8 shown in Library Reference H-106 of the Postal Service
9 Service's?

10 A Could you repeat the question?

11 Q Okay. This roll-forward -- this assumed
12 roll-forward factor of yours, I just want to confirm that
13 it's not based on calculations which are shown in Postal
14 Service Library Reference H-106.

15 A I believe our footnote 6 says they're on page
16 VI-VIII of that library reference.

17 Q Yes, I'm with you now. I'm with you now.

18 At lines 6 and 7 of page 17 you testify that the
19 1.604 number in line 9 is an assumed piggyback factor;
20 correct?

21 A Correct, with the same reference.

22 Q Um-hum. And therefore it's your testimony that
23 this 1.604 factor is not based on test-year costs which are
24 reported in Postal Service Library Reference H-77?

25 A I'm not sure I understand your question, Mr.

1 Tidwell. It's a roll forward through to the test year. The
2 number, the piggyback number we took was from Library
3 Reference 106. Library Reference 106 in turn takes, imports
4 numbers from a whole host of other Postal Service library
5 references including 77.

6 Q But with respect to the relationship between 106
7 and 77 you're not presently certain about the relationship
8 to the 1.604 factor?

9 A I'm not sure I -- could you rephrase the question?
10 I'm just not sure I understand your question.

11 Q Well, let me backtrack. I mean, is it your
12 testimony that the 1.604 factor is not based on any
13 test-year costs reported in H-77? And I think you've
14 indicated that there are numbers from H-106 that come from
15 77 and a host of other sources.

16 A Um-hum.

17 Q And so is your answer then that you're not certain
18 if this specific number is based on numbers from H-77?

19 A I don't have Library Reference 106 in front of me,
20 so I cannot reference the footnote for the source for 1.604
21 other than it being on that page in Library Reference 106.
22 Obviously either myself or staff went back and checked the
23 sources of all numbers used in terms of the ultimate source.

24 Q I want to take a look at the 2.5 number in line 9
25 and ask you whether this FY '96 unit mail processing cost is

1 the same figure as shown in your table 7 on page 16. You've
2 got a fiscal year '96 column figure of 2.5 for presort
3 letters and parcels in page 16 on table 7. I just wanted to
4 confirm whether that was the same 2.5 that shows up here on
5 page 17 in line 9.

6 A I believe it is, but I believe on page 17 we're
7 referencing Mr. Hatfield's testimony and how he develops his
8 4.6-cent figure.

9 Q And can you confirm that that number comes from
10 the FY '96 CRI?

11 A If you'll bear with me for a moment, I believe I
12 can answer that.

13 Q We're talking about the 2.5.

14 A Yes, I know you're talking about the 2.5
15 I believe that's correct; yes.

16 Q And just so we're clear, this is the direct labor
17 unit cost figure, not the total direct and overhead labor
18 cost figure?

19 A Yes, that's correct.

20 Q I would like to move on to now to your page 14,
21 particularly looking at lines 19 through 24, paragraph -- I
22 guess toward the bottom of the page.

23 A I'm sorry, Mr. Tidwell, I missed the page
24 reference.

25 Q Oh, it's page 14.

1 A Page 14. I have it.

2 Q There you testify that Witness Patelunas -- I have
3 been struggling through Patelunas and Pejunas all weekend.
4 I am glad I got to Patelunas here. You testified that
5 Witness Patelunas projected -- his projected increase of 7.1
6 percent in mail processing labor unit costs for First Class
7 work-sharing mail between the base year '96 and test year
8 '98 is inconsistent with historical changes in costs, and so
9 you correct the roll-forward factor from Library References
10 H-106 and H-126 to better reflect historical changes and
11 costs, is that correct?

12 A Yes and no. Historical changes and costs, which
13 are uniformly negative, whether you are looking at mail
14 processing direct labor, or mail processing direct plus
15 overhead labor, however figured, whether FY '95 to '96, FY
16 '94 to '96, they are all negative for First Class
17 work-shared.

18 However you look at those, we took that into
19 consideration, but it is not the only factor in our minus
20 3.6. Our minus 3.6 percent roll-forward in mail processing
21 labor reflects, among other things, the implementation of
22 work-sharing requirements for First Class work-shared
23 mailers that were just implemented on July 1st, 1996, and we
24 believe those have cost savings going into the test year, to
25 mention one qualitative factor.

1 So, yes, history is important in looking at the
2 roll-forward factor, but not just history.

3 Q So, in developing your minus 3.6 roll-forward
4 factor, you get there based on changes in work-sharing mail
5 processing labor costs between '94 and '96, correct?

6 A It's one of the factors that I looked at, and in
7 the formal calculation in which I arrived at the number
8 minus 3.6, I looked at a weighted average of Fiscal '95 to
9 '96 unit cost changes, Fiscal '94 to '96 unit cost changes,
10 the effect of new work-sharing requirements coming in,
11 changes in volume mix. Those are -- the latter two are both
12 very active factors which would carry over into producing a
13 negative cost trend for First Class work-shared mail
14 processing costs into the test year.

15 So, the answer to your question is yes, but I
16 looked at more than that.

17 Q And in doing so, you didn't rely on any of the
18 testimony of Witness Patelunas in this case, or Witness
19 Tayman of the Postal Service? You don't incorporate any of
20 their projections for FY '97 or FY '98?

21 A I certainly looked at their testimonies, and as
22 those testimonies impact the plus 7.1 percent roll-forward
23 factor projected by the Postal Service, which doesn't
24 reflect any of the cost reducing factors so far as we are
25 able to tell, yes, we looked at the factors leading to the

1 Postal Service proposal for the roll-forward.

2 Q But you didn't rely at all on any of their
3 projections, that is Patelunas or Tayman?

4 A I don't know what you mean by rely on. We looked
5 at them and unlike the other roll-forward projections, the
6 projections for First Class work-shared unit costs, it gave
7 the appearance, Mr. Tidwell, of -- the plus 7.1 percent
8 number gave the appearance of the Postal Service ignoring
9 recent history in all of its roll-forward factor for First
10 Class work-shared mail, but weighting, not inconsiderably,
11 recent dynamics in the CRA for other roll-forward factors,
12 both for Standard A mail roll-forward factors, as well as
13 for First Class single piece factors. And there appeared to
14 be a bit of an unloading of costs in the roll-forward factor
15 used for First Class work-shared mail.

16 It seemed to be divorced from those dramatically
17 reduced historic unit mail processing costs since the last
18 rate case. Whereas, the roll-forward factors for the other
19 subclasses did seem to take into consideration recent CRA
20 history.

21 Q And so, in developing -- well, you looked at
22 Patelunas and you looked at Tayman and you found reasons to
23 be uncomfortable with the conclusions they reached and
24 decided to take a different approach, and in taking that
25 different approach, you didn't rely on any of their

1 testimony as inputs to your analysis and development of your
2 minus roll-forward, did you?

3 A If you are asking did I adopt a 7.1 percent
4 roll-forward factor, no, I didn't. That's correct.

5 Q No, I am asking whether you used any of the inputs
6 from their -- any of the -- the inputs of their testimony
7 that led them to a 7.1 percent increase, or were any of the
8 elements embedded in that, did any of those elements find
9 their way into your minus 3.6?

10 A Likely, but I cannot -- I cannot categorically
11 state for you, one, two, three, four. Certainly, our model
12 incorporates, you know, the escalations built into union
13 wage contracts and things of that sort. But what nets out,
14 those wage increases have also happened between the last
15 rate case and this rate case, and it hasn't prevented unit
16 mail processing costs for First Class work-shared labor
17 going dramatically down. So --

18 Q If you're not able to do it here, could you
19 provide a citation to where you incorporate their escalation
20 of the union contract costs?

21 A I believe there is a reference in one of my
22 interrogatory responses, but I cannot tell you exactly which
23 one where we talk about wage costs. But I would have to --
24 I would have to get you the cite.

25 Q I'd appreciate it. It need not be today, we could

1 resolve this at a later date.

2 A All right. The appearance to us is that the other
3 factors are offsetting for First-Class, Work-Shared Mail,
4 we're offsetting those wage increases.

5 Q Why don't you take a look at your Table 8 on page
6 19?

7 A Yes, I have it.

8 Q If I am understanding the table correctly it
9 reflects non-automation shares using your technical Appendix
10 A-4; is that correct?

11 A Yes, it's one of the inputs to that.

12 Q And your non-automation share is the percentage of
13 mail which is the sum of the first three columns of this
14 table, that is the non-presort zip plus four letters or 3/5
15 digit pre-sort zip plus four letters, and the pre-sort
16 non-automation; is that correct?

17 I mean, those three columns comprise your
18 non-automation share?

19 A I would have to check with staff, but subject to
20 check, probably. I do not have the details of that in front
21 of me.

22 Q Okay. What I'd like to do is walk through a
23 couple of the rows here, just to check something.

24 Take a look at the FY-90 row, and I'd like you to
25 accept subject to check that the non-automation share that

1 is combining columns 1, 2 and 3 --

2 A Uh-huh.

3 Q -- is a cumulative 87.3 percent.

4 A Okay.

5 Q And then I'd like you to take a look down to the
6 FY-94 row.

7 A Uh-huh.

8 Q And accept subject to check that the
9 non-automation share is when you add columns 1, 2, and 3 you
10 get 41.36 percent?

11 A Okay.

12 Q And that these data show, in essence, a 46-percent
13 decline in non-automation share from FY-90 to FY-94.

14 A Percentage point decline from 87 to 41, yeah.

15 Q Do you know, first, whether the processing labor
16 costs of first-class, work-shared mail declined between
17 FY-90 and FY-94?

18 A No, you asked that in interrogatory and I don't
19 have -- I didn't have the data available to calculate it,
20 the cost data.

21 Q You didn't have available to you some of the old
22 CRA, the FY-90 data?

23 A No, I didn't, Mr. Tidwell, these questions all
24 came to me from the Postal Service January 28th and January
25 30th.

1 Q Well, would you accept subject to check that the
2 total mail processing labor unit costs, that is, direct plus
3 overhead for first-class, work-shared mail rose over .3
4 cents or about 10 percent during this period?

5 A That's quite possible. I don't have the numbers.

6 MR. CORCORAN: Mr. Tidwell, is that some evidence
7 that's in the record? I mean, how do you propose that he
8 would check this is my question?

9 MR. TIDWELL: Well, one could go back to the
10 earlier CRAs.

11 CHAIRMAN GLEIMAN: I take it you're objecting on
12 the grounds that they are facts not in evidence?

13 MR. CORCORAN: Yes.

14 CHAIRMAN GLEIMAN: Mr. Tidwell, are the facts in
15 evidence?

16 MR. TIDWELL: The CRA reports are on file with the
17 Commission. We would assume that they were subject to a
18 official notice.

19 THE WITNESS: I am not sure whether the level of
20 detail, Mr. Chairman, that is, the mail processing unit
21 labor costs with which to make this calculation. There are
22 some CRAs that have highly-aggregated costs, there are other
23 CRAs that have more disaggregated costs.

24 CHAIRMAN GLEIMAN: Mr. Tidwell asked a question,
25 subject to check, I think, that new material is on file at

1 the Commission and, you know, you can respond subject to
2 check, or you can respond that you can't respond subject to
3 check.

4 THE WITNESS: Okay.

5 [Laughter.]

6 BY MR. TIDWELL:

7 Q Earlier, I think with Mr. Wiggins, you described
8 the 1.1 percent change and total mail processing labor unit
9 costs for first-class, work-shared mail between FY-96 -- '95
10 and '96 as an aberration. What's the basis for that
11 conclusion?

12 A Well, when I looked at the other, either annual
13 percentage change numbers that are in the record in this
14 case, roughly since the last rate case is what I examined,
15 whether you look at direct labor percentage changes, or
16 direct labor plus overhead percentage changes the two move
17 -- the two appear to be quite close together. And whereas
18 for FY-95 and '96 there's a dramatic difference between 1.1
19 and 2.8. And what is driving that wide gap, I was not able
20 to analyze, but it led me to adopt a formal roll-forward
21 factor based on a waiting procedure.

22 Q Well, would the Postal Service's purchase and
23 deployment of OCRs and BCSs, bar code sorters during the
24 early '90s have any bearing on the decline in mail
25 processing labor unit costs for work-shared mail between

1 FY-94 and '96?

2 A Would those purchases have any bearing for
3 first-class, work-shared mail?

4 Q The purchase and deployment?

5 A Likely, but I would have to look at the time
6 implementation of those phase ins. I'm not sure what the
7 time implementation of them is over that period.

8 Q All else equal, is the DPS percentage increases as
9 the Postal Service implements DPS sorting for more delivery
10 units, would you expect mail processing and labor costs to
11 increase?

12 A Because there are more sortations; is that --

13 Q No, because there's more equipment -- well, and
14 sortations.

15 A On that one account alone, yes. But I believe I
16 answered an interrogatory showing that notwithstanding that
17 one cost element it still looks to me as though we have a
18 projection for following unit costs in toto. Because the
19 increased DPS percentage also apply to the '94, to '95, to
20 '96 data. And despite the increasing cost element
21 associated with that greater number of sorts, you still see
22 those unit costs falling for first-class, work-shared mail.

23 So the net impact of all these factors has been
24 that costs have still been falling.

25 Q I'd like now to direct your attention to your

1 response to Postal Service Interrogatory 17.

2 A I have it, Mr. Tidwell.

3 Q Is it your view that in the absence of
4 work-sharing discounts mail which reverts from a
5 work-sharing rate to an undiscounted rate will have the cost
6 characteristics of bulk metered mail?

7 A Well, I gave an answer to the question, Mr.
8 Tidwell. My answer wouldn't change.

9 Q Well, I sort of altered the question a little bit
10 to ask about costs this time around.

11 A Could you repeat the question, in that event?

12 Q Sure. Just -- if all work-sharing discounts were
13 to disappear --

14 A Um-hum.

15 Q And of the mail that stayed in the system and
16 reverted from a work-sharing rate to an undiscounted rate
17 within First Class, would that mail have the cost
18 characteristics of bulk metered mail?

19 A I don't know.

20 Q Would you expect it to have the cost
21 characteristics of handwritten addressed mail?

22 A No, not with the investments that have already
23 been made to produce clean mail. But the difficulty in your
24 earlier question, the predicate missing, is some people
25 might not continue to invest in that machinery, so in the

1 long run the Postal Service might get a lot of dirty mail,
2 very expensive mail, without the work-sharing discounts.

3 The physical makeup of the mail might dramatically
4 change in the long run -- well, it definitely would
5 dramatically change if you didn't have the work-sharing
6 discounts. But with the machinery now in operation, I
7 assume they would continue to use the most cost-effective
8 way to get the mail out the door and into the Postal
9 Service.

10 Q Okay. I'd like to have you take a look at your
11 Technical Appendix C-2, and in particular page 3.

12 In conjunction with that I'd also like you to take
13 a look at your response to Postal Service Interrogatory No.
14 20.

15 A If your bear with me, I'm just going to take 20
16 out of the binder --

17 Q Oh, sure, sure.

18 A And then move back to Technical Appendix C-2,
19 okay?

20 Q Are you set?

21 A I'm all set.

22 Q Okay. In part A of your response to Postal
23 Service Interrogatory -- or in the question in part A of
24 Postal Service Interrogatory 20 we noted the fact that page
25 3 of the technical appendix included alternative proposed

1 rates for First Class automated basic and three five-digit
2 flats, and then we asked you if you were intending to
3 propose alternate rates for flats, since the body of your
4 testimony made no reference to alternate rates for flats.

5 And in your answer you referred to card rates, and
6 I'm wondering if what you actually meant to say there was
7 flats.

8 A Yes, it was. There's -- answers A and B ended up
9 being identical, and there was a typo in answer A. That
10 should read "flats," not "cards."

11 Q Okay. Well, in your response to part A then
12 you're indicating that you're keeping automated flat rates
13 at their current levels rather than setting them at the
14 rates in the Postal Service's proposal; is that correct?

15 A Yes, that's correct.

16 Q Why do you not consider keeping the rates the same
17 to be an alternate proposal?

18 A I'm not sure I understand. Could you rephrase the
19 question, Mr. Tidwell?

20 Q You characterize this as not being an alternate
21 proposal of yours. Then what purpose does it serve?

22 A In Technical Appendix C-2 we have introduced a
23 procedure that is a little different than what's been done
24 in past rate cases. That is, I'm taking a position in my
25 testimony that the cost coverage for First Class work-shared

1 mail should bear some reasonable relationship to Standard A
2 mail quite apart from the consideration of discounts.

3 Although it does not have subclass status, I think
4 it's patently unfair to unload attributable costs onto First
5 Class work-shared mail because it doesn't have subclass
6 status, and that is a double whammy, hit it with a
7 283-percent cost coverage that's just way out of whack by
8 comparison with what you find in similarly constituted mail,
9 i.e., Standard A-class commercial mail.

10 So the procedure that was used in the model run
11 for Technical Appendix C-2 adjusted the cost coverage for
12 First Class work-shared mail after the discounts. As part
13 of that procedure there was some very moderate consideration
14 given in reducing the cost coverage to flats and cards. We
15 kept them at their current rates. You might say that's a
16 proxy for giving them some consideration in reduction of
17 cost coverage and that not a whole lot of thought was given
18 to those.

19 We thought it was not appropriate to input the
20 Postal Service's proposed rates for those. As we were
21 proposing a modest cost-coverage reduction for First Class
22 work-shared mail we could have left those at the Postal
23 Service's formally proposed rates, as they are not
24 explicitly part of our proposal, but it was a judgmental
25 consideration. We are reducing the cost coverage in

1 general.

2 Q Let's take a look at page 6 of your Technical
3 Appendix C-2.

4 A I have it.

5 Q Okay. There I would like you to refer to the line
6 for -- I guess, First Class letters and flats work-shared,
7 automated three five-digit flats.

8 A Yes, I have it.

9 Q Okay. And I think this line shows that the volume
10 of three five-digit flats goes from 235.506 -- 507 million
11 flats under the Postal Services proposal to 244.708 million
12 flats in your alternate proposal. Is that correct?

13 A Correct.

14 Q Isn't this increase due in part to the fact that
15 you have a lower rate for these flats than the Postal
16 Service proposes?

17 A Presumably, that is a dominant factor, yes. It
18 results from our cost coverage. The intent, though, is that
19 is results from our cost coverage adjustment, not anything
20 that represents a proposal on our part for specific flats
21 rates or specific card rates, for that matter.

22 Q And the fact that you keep rates for automated
23 flats at current levels affects the total revenue that
24 results from your proposal?

25 A Yes, it does.

1 Q Now, we are going to flip back to your response to
2 Postal Service Interrogatory 20 and take a look at Part B.

3 A Yes, I have it.

4 Q In that question, we noted the fact that page 3 of
5 your Technical Appendix C-2 included alternate proposed
6 rates for work-shared cards, and then we asked if you were
7 intending to propose alternate rates for work-shared cards
8 since the body of your testimony made no reference to
9 alternate card rates. And you responded by giving the same
10 answer as you did for flats, that is, that you are keeping
11 work-shared card rates at their current levels rather than
12 setting them at levels proposed by the Postal Service, is
13 that correct?

14 A Correct.

15 Q And as with flats, doesn't the fact that you keep
16 rates for work-shared cards at their current levels affect
17 total revenue that results from your proposal?

18 A Sure. The revenue implication of the proposal
19 would be a little different had we kept those rates at the
20 Postal Service proposal, and the volumes would be as well.

21 But, again, please understand the mechanism by
22 which this is done. We are proposing a reduction in the
23 cost coverage for First Class work-shared mail and while our
24 rate proposals are formally directed at First Class
25 work-shared letters, as such, to effect that cost coverage

1 adjustment, there is some spill-over effect on flats and
2 cards, and the proxy we used was to just, for purposes of
3 generating an output of the model, keep them at their
4 current rates. But, as such, we do not make a rate proposal
5 for those in my testimony.

6 Q Well, in your alternate proposal, why did you
7 increase the price of a single piece card to 21 cents, in
8 line with the Postal Service's proposal, but leave the
9 work-shared card rates at their current level?

10 A Again, our proposal for cost coverage adjustment,
11 Mr. Tidwell, was for work-shared mail in First Class, not
12 for single piece mail, whether cards or letters.

13 Q I would like to now turn your attention to your
14 response to Postal Service Interrogatory 31. In particular,
15 your response to Part D, as in David.

16 A Okay.

17 Q Now, in response to Part D of that question, you
18 discussed why you settled on a 78 percent pass-through of
19 the cost differential between single piece, benchmark and
20 the basic automation tier. And in your response, you state
21 that you are not wedded to the 78 percent figure, to a 75
22 percent figure, or to Witness Fronk's original 113 percent
23 figure, is that correct?

24 A Yes. I had to adopt some procedure for estimating
25 these discounts and I felt that the credibility of the

1 Postal Service's bulk metered benchmark was seriously called
2 into question very early in this proceeding, and while it
3 may be a good idea for a future rate proceeding, I just
4 felt, in reading the history of that from the proceedings on
5 that in this case, that it was not an appropriate benchmark
6 to use in this proceeding for the calculation of discounts.

7 And I didn't want to propose my own, and short of
8 having an Commission Appendix F methodology to use, I went
9 back and looked at what the Commission did use in MC95-1 and
10 I used, I adopted that procedure. I adopted the
11 Commission's methodology, in essence.

12 Q When you say you are not wedded to a particular
13 pass-through percentage, did you consider a lower than 78
14 percent pass-through?

15 A No, I unabashedly took, assumed the wisdom of the
16 Commission in MC95-1 and took the 78 percent. In the rest
17 of my answer, they are looking at different numbers, 75
18 percent. Had I gone -- had I tried to develop my own basis
19 for calculating these discounts, the essence of my answer
20 there is I might have ended up with 75 percent, I might have
21 ended up with 113 percent, I don't know. But I did not try
22 to independently research that issue.

23 As you know, the basis for calculating discounts
24 has changed in several different fashions over the years.
25 You folks have had your different methods of calculating it.

1 The Commission has had its different methods of calculating
2 it. This is simply the most recent one used by the
3 Commission, and that was the basis on which I used it.

4 Q Well, analytically, what does the 78 percent
5 reduction in the pass through represent?

6 A Analytically, I think it harkens back to the
7 spirit of the Commission setting discounts, that you can't
8 set discounts the full cost difference. You folks like to
9 use cost avoidance methodology, but the Postal Rate
10 Commission historically has used a little different wrinkle
11 called the cost difference methodology between some
12 benchmark piece of mail, whether single piece or bulk
13 metered or something else, and the mail at issue in this
14 case, a basic automation piece of mail, and setting that
15 cost difference, the Postal Rate Commission has typically
16 not passed through under any method that's used the full
17 cost difference between a single piece letter and a presort
18 or automated letter in setting its discounts. It's
19 typically passed through something less than 100 percent,
20 and that's consistent with 78 percent in MC95-1.

21 Q Okay. I would like to turn your attention now to
22 your response to Postal Service Interrogatory 26.

23 A I have it, Mr. Tidwell.

24 Q In this question, we asked you about whether the
25 correction of a computational error affecting a number

1 disqualifies the use of that number in this proceeding, and
2 you responded by indicating that in your view, that the
3 computation of the bulk-metered benchmark by the Postal
4 Service in this proceeding should be disregarded and, in
5 fact, it should be disqualified because originally there was
6 an error, and you characterized it as a large error in it.

7 You go on to say in response to part B of the
8 interrogatory that the same standard cannot be applied to
9 testimony which must be completed in a matter of weeks under
10 strict budgets in the face of numerous changes, and USPS
11 methodologies can fairly be applied to testimony which can
12 take months to complete under no apparent budget restraint
13 whatsoever given the complexity of the USPS filing and the
14 number of witnesses and technical changes.

15 Did the Postal Service file a corrected
16 bulk-metered benchmark before you filed your testimony or
17 can you recall where in the relation of the production of
18 your testimony the bulk-metered benchmark estimate of the
19 Postal Service was corrected?

20 A Well, there are a couple of corrections. The
21 large one penny correction I believe was done fairly early
22 on and then there was a much smaller correction done later.

23 Certainly it occurred after I had been retained
24 and had begun working on the case where, in the course of my
25 research, it's not so much the -- it's not the -- in

1 answering this question, Mr. Tidwell, just to clarify,
2 although I thought I made it clear in answer A, it's not
3 just or even so much the large one-penny error that was
4 made, the concern that then arises is how did that affect
5 the rate witnesses' recommendations. There clearly is going
6 to be some relationship between what is submitted as
7 evidence by the Postal Service to its rate witnesses and the
8 resulting rates that they and/or discounts that they
9 recommend.

10 But one penny in these proceedings is a pretty
11 large error, and I also didn't know whether there were going
12 to be further corrections once the second correction came
13 along and -- to the bulk-metered benchmark. There is so
14 much that's new, that's been introduced in this case, it's
15 frankly very difficult for any economist to deal with it.
16 But not knowing whether there would be a third correction or
17 when that shoe might drop, I got gun shy and moved off of it
18 in favor of something that possibly wasn't as technically
19 sophisticated but at least it worked in MC95-1, and that was
20 the Commission's procedure.

21 Q And the reason you give for not using the
22 bulk-metered benchmark is because, well, the Commission in
23 MC95-1 didn't use a bulk-metered benchmark cost?

24 A No, that's not the reason I didn't use the
25 bulk-metered benchmark in this case. I'm sure at some point

1 along the line, I looked at those calculations and I doubt
2 they were that different than what I used; but I was
3 technically gun shy in using the bulk-metered benchmark in
4 this case because of the one large error followed by a
5 second error later on that got corrected, not knowing when
6 the next shoe would drop as to whether there would be a
7 third or fourth or fifth change, and I therefore reverted to
8 the Commission's procedure in MC95-1, which was not a
9 bulk-metered benchmark, but I assume the Commission believed
10 it was good or it wouldn't have used it.

11 Q In response to part B, when you say the same
12 standard can't be applied to intervenor witnesses as is
13 applied to Postal Service witnesses by the Commission, are
14 you saying that the Commission should hold intervenor
15 witnesses less accountable for the quality of their work
16 product?

17 A No. I was chuckling as I was re-reading my answer
18 to that. I think, Mr. Tidwell, some of the phraseology in
19 that answer probably reflects the fact that the technical
20 complexity of this case with four new major studies
21 introduced by the Postal Service that dramatically changed
22 the way you calculate discounts for first class work-shared
23 mail alone so raises the barriers to entry of any private
24 intervenor participating in these proceedings and matching
25 the Postal Service's technical sophistication that I don't

1 know that we have -- that there is a regulatory future here.

2 I don't know how many people can afford to
3 participate in this. But I do also think that while we have
4 limited time to respond to your filing, when you introduce
5 four new major studies that dramatically impact in this case
6 my clients, there could have been technical work sessions in
7 advance of the Postal Service filing its case so we could at
8 least understand, you know, what some of all the numerous
9 changes that you've done mean, and to the best of my
10 knowledge, there were not technical conferences on these
11 purely, you know, statistical, econometric, all of these
12 changes introduced. So you do have a leg up on us in this,
13 and yes, I do think you should be held to a higher technical
14 standard as a result.

15 Q Are you saying that it would have been useful for
16 you to have been a participant in technical conferences in
17 relation to the development of the Postal Service's
18 testimony?

19 A I'm sorry, in relation to what?

20 Q The development of the Postal Service's cost
21 studies.

22 A No, just procedural changes, the Bradley
23 methodology, which is a dramatic, some have even said a
24 radical departure, you know, less than 100 percent volume
25 variability, but that's not, of course, the only change

1 made. There have been fairly dramatic changes made to your
2 modelled cost methodology which I think was found a little
3 wanting by the Commission in MC95 in which you went to a lot
4 of work to improve, and I give you a lot of credit for that.
5 There are still about 13 percent of the costs that you
6 haven't modeled, but it's an improvement over MC95.

7 But a lot of this stuff goes to purely technical
8 issues, and it would have been a lot easier for a lot of
9 people to intervene in this case if at least some of these
10 new procedures could have been shared in advance without
11 necessarily sharing proprietary information. You could have
12 used hypothetical numbers, just so that we could try to
13 understand what you're doing.

14 But it has been a nightmare for me personally
15 trying to understand the case you filed. I grant you the
16 enormous technical sophistication, but it would sometimes
17 take us a week where you did not give a page reference to
18 something -- a library reference, pouring through all those
19 references. It just seems to have so raised the cost of
20 intervening that it's very difficult.

21 Q Do you think you might have benefited from
22 technical conferences which took place shortly after the
23 filing of the case?

24 A No. I think at that stage, the cat was out of the
25 bag and everyone is scrambling around.

1 Q Could technical conferences of that nature have
2 reduced the scrambling?

3 A You know, they might have, and I believe you
4 proposed at least one, and I think some of the responses
5 there indicated I believe the conference never happened for
6 whatever set of reasons. Could I have benefited personally
7 had you done those conferences? To some degree.

8 Q But you didn't request any.

9 A We were still scrambling at that point, that we
10 tried to do what we needed to get done through the
11 interrogatory process, Mr. Tidwell.

12 Q Okay. I would like to move on to a different
13 topic, and what I'm going to do for a bit here is discuss
14 your responses to Postal Service Interrogatories 39 and 40.

15 A Okay.

16 Q You've got those?

17 A I have it.

18 Q Okay. These responses relate to first class price
19 elasticities used in this case which were estimated by
20 Postal Service Witness Thress; is that correct?

21 A Yes.

22 Q To start, what I would like to do is to make sure
23 that we're all in agreement on the salient aspects of Mr.
24 Thress' models. Now, he has separate models for
25 single-piece letters and work-shared letters; is that

1 correct?

2 A Yes, for the first time, he has introduced data
3 that enable one to calculate a separate own price elasticity
4 for first class work-shared mail.

5 Q Okay. Well, for the moment, what I would like to
6 do is to focus on a single piece model --

7 A All right.

8 Q -- and ask you to confirm whether -- confirm that
9 on the left-hand side of his regression, he has the volume
10 of single-piece letters, and on the right-hand side, he has
11 the own price of single-piece letters, the average
12 work-sharing discount, and --

13 A Mr. Tidwell, I'm sorry to interrupt, but I'm not
14 sure what you're referencing here. If you're referencing
15 question 39?

16 Q Well, you discuss Witness Thress' work there. It
17 might be helpful if I refresh your recollection by giving
18 you a copy of a couple of pages from his testimony.

19 A I mean, it seemed to me, in our answer to 39, we
20 are answering this solely with respect to first class
21 work-shared mail, and that single piece doesn't enter at all
22 into --

23 Q Well, but your answer to number 40 gets into that.

24 A Oh. Are you talking about number 40 now?

25 Q Well, I started out by saying we were going to be

1 discussing both of them.

2 A Okay. I'm sorry. I thought you were referencing
3 39. I'm just -- I'm trying to follow your line of
4 questioning from the interrogatory.

5 Q Sure.

6 A And now I'm turned to 40.

7 Q Okay. Okay. Well, I'll back up just to make sure
8 we're all together. I'm going to take a look at the
9 single-piece model.

10 A Okay.

11 Q And I want you to confirm that on the left-hand
12 side of his regression, he has the volume of single-piece
13 letters and on the right-hand side, he's got the own price
14 of single-piece letters. He's also got the average
15 work-sharing discount and he's also got all other variables
16 included in his model, like income, seasonal dummies and the
17 like.

18 A Okay. I have not looked at the model in several
19 weeks, but subject to check, I assume that's what is in his
20 equation.

21 MR. TIDWELL: May I approach the witness?

22 CHAIRMAN GLEIMAN: Certainly, Mr. Tidwell.

23 MR. TIDWELL: Well, I'll tell you what, if he has
24 accepted it subject to check, I think we can continue to
25 roll on.

1 CHAIRMAN GLEIMAN: Well in that case, don't
2 approach the witness.

3 In that case, I guess you don't have to approach
4 the witness.

5 Could you pull the mike a little bit closer?

6 MR. TIDWELL: Are you sure you want that from me?

7 CHAIRMAN GLEIMAN: I'd like to be able to hear and
8 occasionally you fade.

9 MR. TIDWELL: Okay.

10 MR. CORCORAN: Could you give us a page reference?
11 I assume you are reading from his testimony?

12 MR. TIDWELL: The references would be to Tables
13 roman II-V and roman II-VI, which appear on pages 40 and 41
14 of USPS-T-7.

15 MR. CORCORAN: Do you have extra copies of it?

16 BY MR. TIDWELL:

17 Q Would you take a look at page 41 there. I'm going
18 to get you to confirm some things about the work shared
19 model.

20 A Okay.

21 Q I'd like for you to confirm that in that model
22 Witness Tress has the volume of work shared letters on the
23 left side and on the right side he has the own price work
24 shared letters, the average work shared discount, and then
25 all of his other variables, is that correct?

1 A Yes.

2 Q Okay. For each of these models when we talk about
3 the work sharing discount variable, the discount is the
4 difference between the single piece price and the work
5 sharing price, is that correct?

6 A Yes.

7 MR. TIDWELL: Again, Mr. Chairman, I would like to
8 approach the witness.

9 What we have done is we have prepared a
10 cross-examination exhibit which just maps out in a very
11 simple form what we have just confirmed here, and I think it
12 will be easier to follow some of the upcoming cross if
13 everybody is taking a look at -- if we have this all to take
14 a look at.

15 It is just a formulaic representation of Witness
16 Tress's First Class letter models for single piece and for
17 work shared.

18 The Postal Service would designate it as USPS
19 Cross-Examination Exhibit of Witness Clifton Number 1.

20 [Pause.]

21 CHAIRMAN GLEIMAN: Mr. Tidwell, this is not only
22 for you but for Postal Service counsel generally and also
23 with respect to counsel for other parties.

24 As a matter of the rules and just as a matter of
25 general courtesy I think it's a good idea to the extent that

1 people are going to be using cross-examination exhibits if
2 they can make them available in advance to the parties.

3 It sometimes helps make the cross-examination that
4 is going to be based on those exhibits a little bit more
5 meaningful if the parties will have had a chance to examine
6 them in advance and understand them perhaps a bit more.

7 Just a general commentary -- we have another week
8 and a half of hearings to go and I would appreciate if all
9 parties, counsel for all parties, could endeavor to make
10 those types of materials available in advance of
11 cross-examination.

12 [Cross-Examination Exhibit
13 USPS/ABA/EEI/NAPM-T-1-XE-1 was
14 marked for identification.]

15 MR. CORCORAN: Well, as you indicate, Mr.
16 Chairman, we had not seen this.

17 I don't know how extensive Mr. Tidwell's cross
18 will be and perhaps the witness can answer or perhaps --

19 CHAIRMAN GLEIMAN: Well, we'll find out.

20 MR. CORCORAN: -- the lunch break would be in
21 order and we could -- he can review it but see how the
22 questioning goes perhaps.

23 CHAIRMAN GLEIMAN: Yes, I would like to try and
24 finish with this witness. I don't know how much more Mr.
25 Tidwell has but I would like to plow ahead.

1 We have got a bunch of witnesses today, so Mr.
2 Tidwell, why don't you proceed and we'll see how far we get.

3 MR. TIDWELL: Thank you, Mr. Chairman.

4 BY MR. TIDWELL:

5 Q Dr. Clifton, have you had a chance to review the
6 exhibit with the moment or two here?

7 A Yes.

8 Q Would you agree that the exhibit is consistent
9 with what we just agreed is the basic structure of Mr.
10 Tress's models?

11 A No. I wouldn't -- I don't see in the work shared
12 model that is labelled here USPS-T-7, page 41, I don't see
13 any price here for single piece letters, whereas on this
14 page here in the work shared model you have a PS as a price
15 of single piece letters, so I don't think they are the same.

16 Q Well, earlier, didn't you agree that the discount
17 term could be expressed as the term of the single piece
18 letter price minus the --

19 A Well, okay, if you are -- all right. You have an
20 explicit figure for D here and then you have changed it to
21 PS minus PW, yes.

22 Q Okay, so we are all square?

23 A Yes.

24 Q Okay. Well, let's start by taking a look at Part
25 B of Interrogatory 39.

1 A Yes.

2 Q Are you ready?

3 A Yes, I have it.

4 Q Okay. In that question, with respect to the owned
5 price elasticity from the work-sharing model, we asked you
6 what other factors were assumed to be held constant. Now,
7 to restate that in terms of the models in the
8 cross-examination exhibit, we are looking at the bottom of
9 the page at the work-shared model, and we are talking about
10 the owned price elasticity, which is the coefficient on that
11 first term, the price of work-shared letters, which is
12 labeled here as PW, correct?

13 A Yes.

14 Q Now, can you confirm that, along with all other
15 variables, one of the factors that must explicitly be held
16 constant is the second term, the discount, labeled here as
17 D?

18 A You're saying in developing the owned price
19 elasticity for First Class work-shared mail, we have to hold
20 the level of D constant?

21 Q Yes.

22 A I don't think you can do it. The problem here is
23 that, given -- the problem here is that, given the
24 definition of the subclass, the rate for the First Class
25 work-shared mail is inextricably linked to the price of the

1 single piece mail. And to look at the percentage change --
2 to look at a percentage change -- to look at elasticity, Mr.
3 Tidwell, to calculate a percentage, that is the percentage
4 change in volume of First Class work-shared letters as a
5 result of the percent change in the rate for First Class
6 work-shared letters, you end up in a situation where, in the
7 denominator of that, to do the arithmetic, the percentage
8 change in the price of the First Class work-shared rate is,
9 by definition, doing to affect the discount.

10 You can't have it any other way. For your whole
11 exercise in these questions, perhaps this is a better way of
12 trying to answer them. But to do what you are doing, you
13 can't hold constant what you need to hold constant.

14 Q If it can't be done, how did -- how was Witness
15 Thress able to accomplish it?

16 A It's an imperfect science. I would have to go
17 back and -- I do remember in either R94-1 or MC95-1, there
18 was some exchange on the issue of trying to calculate
19 elasticities for work-sharing mail in First Class with
20 respect to owned priced versus discounts. And perhaps the
21 answer to your question is contained in that. But it looks
22 -- I would have to go back through Thress myself to see how
23 he was able to hold that particular factor constant, because
24 it does not appear to me, in this formulation that you have
25 done, that he can hold that factor constant.

1 Q Well, couldn't we hold the second term constant by
2 exactly offsetting the change in the work-sharing price with
3 an identical change in the single piece price, so that
4 quantity --

5 A Oh, yeah, but then you have changed two changes
6 that you have presumed to hold constant, so I don't even
7 know what the number would mean by the time -- by the time
8 you did that.

9 You seem to be -- to borrow an analogy which your
10 colleague, Mr. Smith, may understand, the presumed
11 independence, for example, between supply and demand in
12 basic economic analysis requires very strict assumptions.
13 You must hold conditions of supply constant in order to try
14 to estimate conditions of demand and vice versa. But that
15 actually turns out to be very, very hard to do.

16 But here it looks to me like you have a problem
17 and that you are trying to do a calculation based on holding
18 certain factors constant and that you can't. It may be -- I
19 would be happy to try to work through Thress and give you an
20 answer to your last question, but I cannot do it here.

21 Q Okay. Well, let's take a look at Postal Service
22 Interrogatory No. 40. This question poses a hypothetical in
23 which there is an across the board increase of 10 percent in
24 all First Class letter rates, is that correct?

25 A Correct.

1 Q And I want to take a look at your response to Part
2 B of the question. There you agreed that, with respect to
3 the first term, the 10 percent increase in the price of
4 single piece letters, multiplied by the estimated elasticity
5 of negative .189, would be expected to reduce the volume of
6 single piece letters by 1.89 percent, correct?

7 A Correct.

8 Q And in response to Part A, you agreed that a 10
9 percent across the board rate increase will result in a 10
10 percent increase in all work-sharing discounts, correct?

11 A If they're -- yeah, other things being equal.
12 Yeah.

13 Q And in Part C, you agreed that the expected effect
14 of this increase in discounts on single piece volume would
15 be a 10 percent increase in discounts, multiplied by the
16 estimated discount elasticity of negative .164, for an
17 expected decline in single piece volume from this effect of
18 an additional .164 percent, is correct?

19 A Correct.

20 Q And that you agreed in Part D, when you combined
21 the owned --

22 A I'm sorry, D as in dog?

23 Q D as in David.

24 A Okay. D as in David.

25 Q We are very sensitive to dogs at the Postal

1 Service.

2 A Sorry. D as in David, it is.

3 Q As you agreed in part D, when you combine the own
4 price effect of a 1.89-percent reduction in volume and the
5 discount effect of a 1.64-percent reduction in volume, the
6 total effect on single-piece First Class volume of a
7 10-percent increase in the price of all First Class letters
8 is 1.89 plus 1.64, or approximately 3.5 percent; correct?

9 A Correct.

10 Q And let's take a look at part H of Postal Service
11 Interrogatory 40.

12 Okay?

13 A Yes.

14 Q Now you've just reconfirmed that a 10-percent
15 increase in the price of all First Class letters, holding
16 everything else constant, would be expected to lead to a
17 3.5-percent decline in the volume of single-piece letters.
18 Doesn't that allow us to infer that the price elasticity of
19 demand for single-piece letters with respect to the price of
20 all First Class letters is negative .35?

21 A Well, all I can do is repeat my answer to H. I've
22 said no, the Postal Service's volume regression for First
23 Class single-piece mail produces an elasticity of minus .189
24 holding other factors, including work-sharing discounts,
25 constant.

1 One of the difficulties in these hypotheticals,
2 Mr. Tidwell, is you say First Class letter rates would
3 increase by 10 percent. Presumably that's cost-driven, but
4 then there's no change in cost, and hence no change in rates
5 in First Class work-shared mail. So, you know, the discount
6 automatically passes through. I mean, it's a bit of a
7 far-fetched hypothetical, but I'll try to bear with you.

8 In other words it's hard -- in my answer I say the
9 hypothetical has not held other factors constant. It has
10 also changed the First Class work-shared discount, which is
11 what we just got into before here on your sheets. Please
12 see my response to 39(b) above for discussion of the
13 inclusion of more than one factor in a regression analysis.

14 Q Okay. Okay. Well, I agree that I'm not asking
15 you about the own price elasticity of demand for
16 single-piece letters. I'm talking about something a little
17 different. I'm talking about the price elasticity of demand
18 for single-piece letters with respect to the price of all
19 First Class letters, work-shared as well as --

20 A There is no price for all First Class letters.
21 There are different prices, and I suppose the fundamental
22 structure is at least two prices, a price for single-piece
23 and a price for work-shared. But in fact there are several
24 rates for work-shared. The separate calculated elasticity
25 for First Class work-shared amalgamates all those different

1 rate categories in First Class work-shared, so there's not a
2 single elasticity for own price elasticity for all the
3 different rate categories in First Class work-shared.

4 But what we do have in this case for the first
5 time is the introduction of a separate own-price elasticity
6 for work-shared mail as a whole, and it shows that mail
7 stream to be more price-elastic, less inelastic, if you
8 will, than single-piece mail. The difference between .189
9 versus .289. And that indicates the presence of at least
10 some greater competitive alternatives for First Class
11 work-shared mail, which I think is the substance of what
12 you're trying to get at in this line of questioning.

13 Q What I'm trying to get at is if the question is
14 what is the expected effect on single-piece volume of an
15 increase in all letter rates of 10 percent holding
16 everything else constant, and the answer is a volume decline
17 for single-piece letters of 3.5 percent, then an implicit
18 elasticity of single-piece letter volume with respect to the
19 price of all First Class letters of negative .35 is
20 suggested. And I want to know if there's any part of that
21 that you disagree with.

22 A No. In answers (a) through (j) I say confirmed.
23 But by the time you go down to (h) I have difficulty with
24 the exercise because the hypothetical that you're setting up
25 has not held other factors constant. The exercise is

1 consistent and we're able to answer it confirmed through (g)
2 but you're then taking a leap of logic beyond that which I
3 respectfully don't agree with.

4 Q Well, what other factors have not been held
5 constant beside the price of all First Class letters?

6 A This changed the work-sharing discount. The
7 hypothetical has changed. As I state in my answer, in the
8 exercise, you change the work-sharing discount.

9 Q And isn't it implicit in the change in all First
10 Class letters?

11 A Yes, but you changed the discount. The minus
12 .189, Mr. Tidwell, holds other factors constant. The own
13 price elasticity calculated for first-class, single-piece
14 mail holds all other factors constant including the
15 work-sharing discount. But your hypothetical has not held
16 all other factors constant, in particular, it has changed
17 the first-class, work-sharing discount.

18 Q Does it hold constant the price of single-piece
19 mail?

20 A Well, the hypothetical in all of your questioning
21 is that you've changed the price for first-class letter
22 rates by 10 percent, so you have not held that price
23 constant.

24 Q If we're trying to calculate the elasticity with
25 respect to all prices, don't we have to vary all prices?

1 A I don't know what the meaning of an "elasticity"
2 would be in that. The idea of inelasticity in the world of
3 economics is that you look at a percentage change and a
4 numerator, in this case, typically some volume change, and
5 in the denominator, you look at a percentage change in a
6 price, not a whole set of interacting prices.

7 A A set of interacting prices would in turn add
8 interactions in the numerator that you're not anticipating
9 here.

10 Q Well, let's try another hypothetical. Let us
11 suppose that Witness Thress, instead of including own price
12 and discount price as his right-hand side variables, had
13 included own price and cross price. In other words, in his
14 work-share model the first term would be the own-price of
15 work-share, and the second term would be the cross-price of
16 single piece. And on the flip side of that, on the
17 single-piece model, the first term would be the own price of
18 single piece, and the second term would be the cross-price
19 of work-share. Are you following me?

20 A Okay.

21 Q Okay.

22 A Just so that we're on the same track here, and I
23 think I understand what you mean, it was Mr. Smith
24 articulating this. I wouldn't ask the question. But do you
25 -- could you tell me what you mean by "cross elasticity"

1 here so I know absolutely certain what you're -- I'm just
2 saying that sometimes there's a problem in translation
3 between attorney and economist and if you could just define
4 for me exactly what you mean by "cross elasticity" I will
5 try to answer your question.

6 Q The effect on volume of the category we're looking
7 at of a change in price of another category.

8 A And so in your equation for first-class,
9 single-piece the cross-price elasticity is the effect on --
10 how do you define it for single-piece, for example?

11 Q The effect on single-piece volume of the change in
12 the work-share price?

13 A Okay. Now, I'm with you.

14 Q Okay. Now, going to this new hypothetical model
15 that we've just discussed, would you consider the estimated
16 own price elasticity coefficient by itself to be an
17 indication of the non-postal alternatives for the mail type
18 in question?

19 A An indication, it would be one indication, yes.

20 Q Could you compare the estimated own-price
21 elasticity for single-piece mail from the single-piece model
22 with the estimated own-price elasticity for work share from
23 the work-share model and conclude that whichever category
24 had the higher own-price elasticity has greater non-postal
25 alternatives?

1 A Could you run that one by me again? I think I
2 understand it, but could you --

3 Q Could you compare the estimated own-price
4 elasticity for single-piece mail from the single-piece model
5 with the estimated own-price elasticity for work share from
6 the work-share model and conclude that whichever category
7 had the higher own-price elasticity has greater non-Postal
8 alternatives?

9 A It's one factor that you would look at, but all of
10 these discussions on elasticity are like, you know, number
11 of angels dancing in a pin, all of these mail streams
12 including standard A mail as well as first-class single
13 piece and first-class, work-shared mail are highly
14 inelastic. That is to say you can boost rates on any of
15 those categories and generate a revenue increase.

16 But I would have to look at more than own-price
17 elasticities to look at competitive alternatives. I mean --
18 and we're also -- you know, with these short-run price
19 elasticities or long-run price elasticities. You know, I
20 mean to look at -- to address the question that you're
21 asking in No. 40, what are the competitive alternatives
22 between first-class, single piece and first-class
23 work-shared mail, one would have to do a lot more than look
24 at just the difference in own-price elasticities.

25 Those elasticities, for example, don't capture a

1 lot of competitive alternatives, not all of them. I don't
2 see over time, for example, that the Postal Service on price
3 elasticity captures the use of the telephone over the 20th
4 Century which seems to me to have been the greatest
5 competitive alternative to first-class mail generally.

6 But it's -- if you are asking, are these other
7 elasticities that are in your questions 39 and 40, do they
8 have some -- since they have some impact on first-class,
9 single-piece volume versus work-shared, first-class volume,
10 once you develop all these interactive effects, do both
11 pieces of mail have some competitive alternatives, yes.

12 Can one conclude which has the greatest
13 competitive alternatives. I don't think you can conclude
14 that just from looking at these different elasticities
15 numbers. I don't think those would give you a definitive
16 answer.

17 CHAIRMAN GLEIMAN: Mr. Tidwell, could you tell me
18 approximately how much longer you think you are going to go?

19 MR. TIDWELL: I think fewer than 10 minutes.

20 CHAIRMAN GLEIMAN: Beg your pardon?

21 MR. TIDWELL: Fewer than 10 minutes.

22 CHAIRMAN GLEIMAN: Let's proceed then.

23 MR. TIDWELL: Okay.

24 BY MR. TIDWELL:

25 Q Would you agree that the First Class price

1 elasticities reported by Witness Thress which you have cited
2 in your testimony reflect in part movement by mailers
3 between single piece and work shared mail in response to
4 relative price shifts between the two categories?

5 A The own price elasticity for single piece? The
6 own price elasticity for single piece would be the
7 percentage change in volume for single piece divided by the
8 percentage change in price of single piece.

9 To make that calculation, one would have to hold
10 everything else constant.

11 As we have discussed so far, it appears in the
12 very definition of a discount that not everything else can
13 be held constant in that calculation and I would have to go
14 back and examine in some detail Witness Thress' testimony to
15 see how he as a practical matter handles that theoretical
16 problem, but I do not know off the top of my head how he
17 handles that theoretical problem but everything else has to
18 be held constant to develop this elasticity, but by
19 definition you can't hold everything else constant in this
20 particular case.

21 Q Would you agree then that what you are saying is
22 that one consequence of the estimation procedure used by
23 Witness Thress is that one has to be very cautious in
24 interpreting the differences between those elasticities as
25 reflective of differences regarding non-postal alternatives?

1 A Certainly.

2 MR. TIDWELL: Mr. Chairman, we have no further
3 questions.

4 CHAIRMAN GLEIMAN: Is there any follow-up? Mr.
5 Wiggins?

6 MR. WIGGINS: I'll be very brief.

7 CHAIRMAN GLEIMAN: Take whatever time you need,
8 sir.

9 REDIRECT EXAMINATION

10 BY MR. WIGGINS:

11 Q You explained, Dr. Clifton, in talking with Mr.
12 Tidwell, that the modeled determination or the determination
13 in your model to hold work shared cards and work shared
14 flats at present rates had an effect on both volumes and
15 revenues, is that correct?

16 A Yes, it does.

17 Q Did you do the calculation of what, and I had the
18 number slight wrong when we talked before, page 43 you
19 testify that the income consequences, the revenue
20 consequences to the Postal Service of the changes that you
21 sponsor in this testimony along would be \$117 million?

22 A And that is on page 43?

23 Q Page 43, yes.

24 MR. TIDWELL: Which page?

25 MR. WIGGINS: 4-3.

1 THE WITNESS: Yes.

2 BY MR. WIGGINS:

3 Q Did you do a calculation of what that number would
4 be had you not left First Class work shared cards and flats
5 at their present rates but taken them to the proposed rates?

6 A No, but it clearly would be less in the impact on
7 Standard A mail, for example, that we calculate would be
8 less.

9 The impact on Standard A commercial mail would
10 also be less --

11 Q Right.

12 A -- if the impact were spread onto nonprofit
13 Standard A mail as well.

14 Q Is there an easy way to describe how one would do
15 that calculation from your model or models?

16 A I would have to go back and check. I mean in
17 trying to respond to the extreme sophistication of the
18 Postal Service's case requires a lot of modeling.

19 What drives our model is what we call a cost
20 coverage model. We have to import a lot of rates and indeed
21 for us to change a cost coverage we have to change a set of
22 rates.

23 As I was trying to respond to Mr. Tidwell, an
24 artifact of changing the cost coverage for First Class work
25 shared mail given the way that category is structured

1 includes a modest reduction in the cost coverage for First
2 Class flats and cards.

3 That, as such, is not a formal part of our
4 proposal.

5 Q No, I understood that, but if one wanted to adopt
6 the rates -- not the coverage now -- but the rates that you
7 have proposed and move all of the rate cells for which you
8 haven't offered an affirmative proposal to the levels
9 proposed by the Postal Service, is there any easy way to
10 describe what one would have to do in your model to figure
11 out the consequences of that movement?

12 A Subject to check, I think it's possible to do that
13 in the model. I think it might take several computer runs,
14 but I think it is possible to approximate that.

15 Q There's not just one real clean thing that could
16 be done to do that, as far as you know?

17 A We have to -- we would have to play around with
18 the rates and see what the resulting cost coverages are.
19 But, I mean, it is technically possible to do that.

20 MR. WIGGINS: Thank you, Dr. Clifton.

21 Thank you, Mr. Chairman?

22 CHAIRMAN GLEIMAN: Is there any further follow-up?

23 [No response.]

24 CHAIRMAN GLEIMAN: There are no questions from the
25 bench. That brings us to redirect and to lunch. So get to

1 do double duty during lunch, Witness Clifton and Mr.
2 Corcoran.

3 We will come back at 1:45, we will pick up with
4 this witness and then we will move on to NDSM Witness Haldi.
5 Thank you.

6 [Whereupon, at 12:39 p.m., the hearing was
7 recessed, to reconvene at 1;45 p.m., this same day.]

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AFTERNOON SESSION

[1:45 p.m.]

Whereupon,

JAMES A. CLIFTON,

the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

CHAIRMAN GLEIMAN: Mr. Corcoran.

MR. CORCORAN: We have nothing further, Mr. Chairman. Thank you very much.

CHAIRMAN GLEIMAN: If there's no redirect, then Dr. Clifton, I want to thank you. We appreciate your appearance here today and your contributions to the record, and if there's nothing further, you're excused.

[Witness excused.]

CHAIRMAN GLEIMAN: We will take up ND -- excuse me, I'm sorry. Yes, sir.

MR. TIDWELL: Mr. Chairman, I was going to raise one procedural matter. I don't recall that I was swift enough to move that Postal Service Cross-examination Exhibit No. 1 to Dr. Clifton be transcribed, and if I failed to do that earlier, I would like to do that now.

CHAIRMAN GLEIMAN: Without objection, USPS -- well, let's see how we've got this designated.

It's USPS/ABA/EEI/NAPM Cross-examination Exhibit

1 No. 1 will be transcribed into the record.

2 [Cross-Examination Exhibit
3 USPS/ABA/EEI/NAPM-T-1-XE-1 was
4 received into evidence and
5 transcribed into the record.]
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USPS CROSS-EXAMINATION EXHIBIT
ABA/EEI/NAPM WITNESS CLIFTON #1

WITNESS THRESS' FIRST-CLASS LETTER MODELS

VS = SINGLE PIECE LETTERS VOLUME
PS = SINGLE PIECE LETTERS PRICE
VW = WORKSHARED LETTERS VOLUME
PW = WORKSHARED LETTERS PRICE
D = DISCOUNT

SINGLE PIECE MODEL

$VS = f \{ PS, D, \text{ALL OTHER VARIABLES} \}$

OR, ALTERNATIVELY

$VS = f \{ PS, (PS - PW), \text{ALL OTHER VARIABLES} \}$

WORKSHARED MODEL

$VW = f \{ PW, D, \text{ALL OTHER VARIABLES} \}$

OR, ALTERNATIVELY

$VW = f \{ PW, (PS - PW), \text{ALL OTHER VARIABLES} \}$

1 CHAIRMAN GLEIMAN: Are we all set then? Okay,
2 thank you.

3 While we're waiting for NDSM Witness Haldi to get
4 situated, I understand that Mr. Carlson's documents that he
5 mailed have arrived, and if you're prepared at this point to
6 enter his materials in the record, we can proceed with that,
7 Ms. Dreifuss.

8 MS. DREIFUSS: That's fine, Mr. Chairman.

9 Mr. Carlson sent me two copies of his testimony.
10 They contain three minor corrections which appear to be
11 changes to correct citations from incorrect citations. And
12 I believe those are incorporated into these two copies.
13 Each copy of the testimony has a declaration attached by Mr.
14 Carlson, one that he has signed, and on his behalf I move
15 that this testimony be admitted into evidence.

16 Let me just identify what it is that I'm asking to
17 be admitted. It's DFC-T-1, direct testimony of Douglas F.
18 Carlson. I move that it be admitted into evidence.

19 CHAIRMAN GLEIMAN: Without objection, Witness
20 Carlson's testimony and exhibits are admitted into evidence,
21 and I direct that they be transcribed into the record at
22 this point.

23 [Direct Testimony and Exhibits of
24 Douglas F. Carlson, DFC-T-1, was
25 received into evidence and

transcribed into the record.]

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DFC-T-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

**DIRECT TESTIMONY
OF
DOUGLAS F. CARLSON
(DFC-T-1)**

December 29, 1997

I. PURPOSE OF TESTIMONY

1 In this testimony, I oppose the Postal Service's proposed 23-cent combined rate
2 and fee for stamped cards. As an alternative, I propose a new rate for stamped cards
3 that reflects the lower processing costs of stamped cards and allows individual
4 customers to share in the benefits of automation.

5 I also oppose the Postal Service's proposed fee increases for post-office boxes
6 and return receipt by providing evidence of significant problems with the quality of the
7 service that the Postal Service is providing.

II. AUTOBIOGRAPHICAL SKETCH

8 For the past 13 years, I have been studying the mail-processing operations of
9 the United States Postal Service. By touring postal facilities all over the country,
10 sending test mail to myself, and examining and studying the mail I receive, I have
11 become an expert on mail processing and distribution.

12 I began studying the Postal Service while I was in high school in Santa Cruz,
13 California. My interest continued during my college years in the San Francisco Bay
14 Area and the Sacramento area. I received a bachelor's degree in economics from the
15 University of California, Berkeley, in 1990 and a law degree from Boalt Hall School of
16 Law at UC Berkeley in 1994. I have been employed as an administrative analyst at UC
17 Berkeley since 1994. I am representing myself in this case. I live in Emeryville,
18 California, a small city located between Berkeley and Oakland.

19 I provided testimony to the Postal Rate Commission on post-office-box service in
20 Docket No. MC96-3.

III. STAMPED CARDS

21 A. Introduction

22 The Postal Service proposes a rate of 21 cents for regular single-piece stamped
23 cards and post cards,¹ plus an additional, two-cent fee for stamped cards.² Since a
24 stamped card incurs manufacturing and processing costs of only 7.6 cents,³ the Postal

¹ USPS-T-30 at 25.

² USPS-T-39 at 87.

³ DFC/USPS-T5-2(b), Attachment I.

1 Service's proposal would create a 303-percent cost coverage for stamped cards. (In
 2 contrast, private post cards incur costs of 18.7 cents,⁴ yielding a proposed cost
 3 coverage of 112 percent.) A 303-percent cost coverage is unprecedented in postal
 4 ratemaking.⁵ Moreover, the Postal Service has failed to justify this record-high cost
 5 coverage. The proposed rate and fee is unfair and inequitable to customers who
 6 purchase stamped cards. Therefore, I propose a new rate structure for stamped cards
 7 that, in this case, would allow customers to purchase and mail stamped cards for a total
 8 of 20 cents — the current rate.

9 **B. Discussion**

10 The Postal Service has offered several possible explanations for the cost
 11 differential between private post cards and stamped cards. Witness Patelunas has
 12 stated that

13 postal cards are less costly to process because they are more compatible
 14 with mechanization and automation. For example, postal cards are
 15 designed to a uniform size and shape for equipment compatibility, and
 16 private cards are various sizes, shapes and flexibility. Also, address
 17 hygiene may be better considering the uses of postal cards and private
 18 cards. Postal cards might be used by businesses and organizations to
 19 notify addressees of sales or upcoming events, and to the extent that the
 20 addressing is done by mailing lists and computer generated labels, the
 21 addresses would be clean. Private cards though, [sic] might be used to
 22 send greetings from a vacation spot and as such, [sic] would probably be
 23 handwritten and less clean. Another result of the different uses may be
 24 that the organization use is of a more local nature; whereas, the vacation
 25 greeting may be from a remote vacation site."⁶

26 Stamped cards are, indeed, more compatible with automation than private post
 27 cards. For example, stamped cards meet the automation-compatibility requirements of
 28 DMM §§ C810.2.1, C810.2.2, C810.5.1, C810.7.4, C830.3.4, C830.3.5, and C830.6.1–
 29 C830.6.3, while some private post cards do not.⁷ Stamped cards meet the
 30 background-reflectance requirement of DMM § C830.3.2, while not all private post
 31 cards (such as those with deep colors) do.⁸ Picture post cards that people send while
 32 on vacation often are too glossy to receive the orange RBCS ID tag on the back or the

⁴ *Id.* In this testimony, I use FY 1996 attributable costs because the Postal Service stopped collecting stamped-card data separately after FY 1996. See DFC-USPS-T5-2(b).

⁵ See DFC/USPS-4.

⁶ Docket No. MC96-3, OCA/USPS-T5-11 (this interrogatory response has been designated as evidence in Docket No. R97-1 — see POR R97-1/68 — but the transcript cite is unavailable to me).

⁷ DFC/USPS-RA-1 and 3.

⁸ DFC/USPS-RA-2.

1 black Postnet bar code on the front. (The bar code smears on the slick surface.⁹)
 2 Therefore, those cards must be processed manually or run through a Letter Mail
 3 Labelling Machine (LMLM)¹⁰ to apply a label to the front and/or back and then returned
 4 to the RBCS system. Manual sortation is more costly than automated sortation.
 5 Similarly, the LMLM step increases costs.¹¹ I rarely receive a glossy card that does not
 6 have at least one label on the front or back; often, the cards have labels on both sides.
 7 And, since RBCS was deployed nationwide, delivery service of glossy cards has
 8 deteriorated because the cards require so many additional processing steps.

9 Another, very practical reason explains why stamped cards are more compatible
 10 with automation than private post cards: by their design, stamped cards are not likely to
 11 have non-address information on the front (address) side of the card. Non-address
 12 information in the OCR read area¹² interferes with OCR readability.¹³ Even a glossy
 13 picture post card that has a handwritten message on the left side and a typewritten
 14 address on the right side may not be readable because the OCR read area is a
 15 horizontal box that runs nearly the width of the mail piece¹⁴; thus, the OCR will become
 16 confused by the handwriting on the left side.¹⁵ Whenever the OCR cannot resolve an
 17 address on its own, processing costs increase.¹⁶ Clearly, by design and typical usage,
 18 stamped cards are more compatible with automation than private post cards.

19 While the Postal Service does not have sufficient information to allow it to
 20 allocate the cost differential quantitatively among these possible explanations, two facts
 21 remain clear: (1) Some of the cost differential is attributable to differences in
 22 automation compatibility, and mail that is compatible with automation is less expensive
 23 to process than mail that is not compatible with automation; and (2) this cost differential
 24 exists and is real, so regardless of the precise reasons for this cost differential,
 25 stamped cards are less expensive to process than private post cards.

26 In recent cases, the Postal Service has proposed and the Commission has
 27 approved rates and fees that reflect discounts for mail that is compatible with
 28 automation.¹⁷ In the current case, the Postal Service proposes a 30-cent rate for

⁹ Tr. 3/773 (DFC/USPS-T23-2(c)).

¹⁰ Tr. 3/772 (DFC/USPS-T23-1(c)).

¹¹ Tr. 3/776 (DFC/USPS-T23-5(b)).

¹² DMM § C830.1.1.

¹³ DMM § C830.1.3.

¹⁴ DMM § C830.1.1.

¹⁵ DMM § C830.1.3.

¹⁶ DFC/USPS-T32-3.

¹⁷ DFC/USPS-T32-5-6.

1 Prepaid Reply Mail (PRM).¹⁸ The Postal Service supports its PRM proposal by arguing
2 that

3 [b]y recognizing some of the cost savings associated with this mail, the
4 Postal Service is able to permit the general public to more directly share
5 in the benefits of automation and to enjoy the convenience of not having
6 to affix postage to a portion of their core correspondence.¹⁹

7 The OCA's written discovery has raised serious questions about the extent to which the
8 public will benefit from PRM in any significant way (if at all).²⁰

9 Unlike PRM, my proposed 20-cent rate for stamped cards would allow every
10 member of the public to share directly in the benefits of automation simply by
11 purchasing and mailing a stamped card. Customers would be *rewarded* for using a
12 product that, in general, is more compatible with automation than private post cards.
13 Presently, I estimate that I use between 200 and 300 stamped cards per year. If the
14 Postal Service's proposal is approved, I would switch to 4" x 6" index cards, which I can
15 purchase for 0.69 cents each in a package of 500 at Office Depot or Staples or 1.40
16 cents each in a package of 100 at Office Max²¹ — less than the proposed two-cent fee
17 for stamped cards. These index cards may not be as compatible with automation as
18 stamped cards, and to the extent that they are not — and to the extent that customers
19 switch to glossy post cards or any other type of less-automation-compatible private post
20 card in response to the two-cent stamped-card fee — the Postal Service's own
21 proposal would drive its costs *up* because the proposed stamped-card fee sends
22 customers the wrong price signal.

23 In recent reclassification cases, the Commission has recognized the importance
24 of sending the correct price signal by recommending rates that reward customers for
25 producing mail that is more compatible with automation. My proposal is entirely
26 consistent with Commission precedent. In addition, while most reclassification
27 proposals have been directed at large mailers, my proposal has the added benefit of
28 allowing every individual to enjoy an automation discount by simply continuing to use
29 stamped cards or by switching from private post cards to stamped cards.

¹⁸ USPS-T-32 at 33.

¹⁹ USPS-T-32 at 37.

²⁰ See, e.g., OCA-USPS-T32-72, 82, 85, 102, and 105. While I question the extent of the benefit from PRM that the typical customer will receive, I do not believe that PRM will negatively affect any customer, either. Therefore, I do not oppose the PRM proposal.

²¹ These prices include local sales tax of 8.25 percent.

1 The rate for stamped cards should be held at 20 cents for many years until the
 2 costs rise to a level that would justify a rate increase to restore a higher cost coverage.
 3 My proposal seeks not only to prevent the exorbitant cost coverage that the Postal
 4 Service seeks to impose in this case but also to begin, over the course of many years
 5 and future rate cases, a practice of offering a lower rate for stamped cards that reflects
 6 the lower processing cost of stamped cards while allowing a reasonable cost coverage.

7 Ideally, the rate for private post cards and stamped cards would be determined
 8 in two steps. First, the Commission would determine the appropriate cost coverage for
 9 cards. I accept the Postal Service's proposed 184-percent cost coverage for cards as a
 10 starting point for developing my proposed new rate category for stamped cards, even
 11 though I question why the Postal Service proposes a cost coverage for cards that is
 12 only 16 percentage points less than the cost coverage for letters (184 percent versus
 13 200 percent)²²; witness Threadgill persuasively explains the reasons why the statutory
 14 value-of-service criterion mandates a lower cost coverage for cards in this case.²³ In
 15 any event, the rate for private post cards would be set based on whichever markup for
 16 cards ultimately is determined. The processing-cost portion of the rate for stamped
 17 cards also would be set based on the markup for cards. In this case, applying an 84-
 18 percent markup to stamped cards would yield a tentative rate of 14 cents.²⁴ Next, the
 19 Commission would determine the appropriate markup for the manufacturing cost of
 20 stamped cards, considering the value of the preprinted postage. In this case, the
 21 Postal Service has proposed a 200-percent markup,²⁵ increasing the "fee" for
 22 manufacturing the card from one cent to two cents. The rate for stamped cards would
 23 then be 16 cents (14 cents plus two cents). If the Commission determined that a lower
 24 cost coverage for cards was justified, the cost coverage for the processing-cost portion
 25 of stamped cards — and thus the rate — would be reduced accordingly.

26 I would have proposed a 16-cent rate for stamped cards, but the revenue effects
 27 would have been very large. Since I have no prior experience in omnibus rate cases, I
 28 was concerned that this large effect on net revenue might jeopardize the viability of my
 29 proposal. In contrast, my proposal to hold the rate for stamped cards at 20 cents —
 30 and to allow the Postal Service to continue selling its existing stock of 20-cent stamped
 31 cards — would have only a modest effect on net revenue (a decrease of not more than
 32 \$21.931 million). For this case, the Commission should recommend my proposal to

²² USPS-T-30 at 22 and 25.

²³ APPA-T-1 at 10-12.

²⁴ $(0.076) (1.84) = \$0.14$.

²⁵ USPS-T-39 at 89.

1 hold the rate for stamped cards at 20 cents and encourage the Postal Service, in future
2 cases, to re-examine ratemaking for the entire Stamped Cards and Post Cards
3 subclass to recognize the variability in the attributable costs for stamped cards, private
4 post cards, and presort cards. I support the spirit of the proposals contained in witness
5 Threadgill's testimony, although he and I differ on the specifics because I believe that
6 rates for stamped cards, private post cards, and presort cards should be set separately,
7 since each category has significantly different attributable costs.

8 The changes that I propose to the rate schedule and Domestic Mail
9 Classification Schedule are listed on page 7 of my testimony. As the summary
10 indicates, I elected to remove the fee schedule that provides a stamped-card fee. I
11 believe that a single rate for stamped cards that includes the manufacturing costs
12 would create less confusion for customers than a rate structure such as the Postal
13 Service's proposed rate structure in which one rate existed for mailing a stamped card
14 and another fee applied to the purchase of the card. Window and vending-machine
15 sales would benefit by avoiding confusion if 20 cents postage were imprinted on
16 stamped cards and the cards did, in fact, sell for 20 cents. I could have maintained the
17 separate stamped-card fee as well as a 20-cent total rate and fee for stamped cards by
18 setting the rate for stamped cards at 18 cents and imposing a two-cent fee for the
19 stamped card. However, I concluded that the benefits of having a single, combined
20 rate outweighed any benefit from a separate stamped-card fee. As long as the
21 Commission, Postal Service, and participants understand how the rate for stamped
22 cards should be derived — that is, by separately calculating the markup for processing
23 costs and the markup for the manufacturing costs, then combining the two numbers —
24 no benefit exists in burdening the public with both a rate and a separate fee.

25 **C. Statutory Pricing Criteria**

26 My proposal involves a change in a rate and changes in the Domestic Mail
27 Classification Schedule. Therefore, I will analyze the merits of my proposal under the
28 relevant subsections of 39 U.S.C. §§ 3622(b) and 3623(c).

29 Most importantly, and especially when contrasted with the Postal Service's
30 proposal, my proposal is fair and equitable under §§ 3622(b)(1) and 3623(c)(1). A rate
31 or fee is fair if, among other factors, the rate or fee is reasonably related to the cost of
32 providing the service. My proposed rate of 20 cents for stamped cards attempts to
33 keep the rate for stamped cards at a level that bears some relation to the cost of
34 providing the service, 7.6 cents.²⁶ If my proposal is approved, the cost coverage for

²⁶ DFC/USPS-T5-2(b), Attachment I.

**PROPOSED CHANGES TO RATE SCHEDULE
AND DOMESTIC MAIL CLASSIFICATION SCHEDULE**

**FIRST-CLASS MAIL
RATE SCHEDULE 222
Stamped Cards and Post Cards**

	Proposed Rate	Current Rate
	(cents)	(cents)
CARDS		
Regular		
Single-Piece <u>Post Cards</u>	21.0	20.0
Single-Piece <u>Stamped Cards</u>	20.0	20.0

* * *

Schedule SS-19A — Stamped Cards

Description	Fee
	<i>(in addition to postage)</i>
Stamped Card	\$0.00
Double Stamped Card	\$0.00

I oppose the Postal Service's proposed change to DMCS § 271(b)²⁷ and the Postal Service's proposed new Fee Schedule 962.²⁸ I also question the Postal Service's request to rename the Stamped Cards and Post Cards Subclass as the Cards Subclass, since my proposal treats the two types of cards as separate items.²⁹

²⁷ Request for Opinion and Recommended Decision, Attachment A at 19.

²⁸ *Id.* at Attachment B at 64.

²⁹ *Id.* at Attachment A at 13.

1 stamped cards will be 263 percent. Witness Needham has already testified that a cost
 2 coverage of 254 percent for stamped cards would be sufficient.³⁰ This cost coverage is
 3 higher than the 184-percent cost coverage that the Postal Service proposes for First-
 4 Class Mail cards,³¹ but a somewhat-higher cost coverage is justified because the
 5 convenience of preprinted postage on stamped cards adds some value to stamped
 6 cards.³² Whether the cost coverage for stamped cards should be higher than the cost
 7 coverage for First-Class Mail letters, 200 percent,³³ is questionable, however, since
 8 letters carry more correspondence and offer more privacy than cards.³⁴ Nevertheless,
 9 since the Postal Service's proposal would create a cost coverage of 303 percent,³⁵ my
 10 proposal lowers the cost coverage to a more-reasonable level; the Commission may
 11 find that an even-lower rate for stamped cards is appropriate.

12 The Postal Service's proposal for stamped cards is indefensible, unfair, and
 13 inequitable. In the 26 years since the Postal Reorganization Act of 1971, the Postal
 14 Service Board of Governors has never approved, and the Postal Service has never
 15 implemented, a cost coverage higher than 275 percent.³⁶ The Postal Service has
 16 failed in this case to explain why a cost coverage of 303 percent for stamped cards is
 17 justified. An explanation would need to specify why stamped cards supposedly have a
 18 value of service higher than the value of any other service, such as First-Class Mail
 19 letters. The Postal Service has provided no such explanation. Absent an explanation,
 20 the Postal Service's proposal to impose a cost coverage on stamped cards that is 51.5
 21 percent higher than the cost coverage for First-Class Mail letters is inequitable. The
 22 Postal Service also has failed to explain why users of stamped cards should be subject
 23 to a markup of 203 percent — the highest markup in history. For this reason, the
 24 Postal Service's proposal is unfair.

25 My proposal will prevent a 303-percent cost coverage for stamped cards in this
 26 case and lay the groundwork for a lower rate for stamped cards in future cases as well.

27 Sections 3622(b)(2) and 3623(c)(2) direct the Commission to consider the value
 28 of stamped cards. As I explained above, the cost coverage for stamped cards should

³⁰ Tr. 3/754.

³¹ USPS-T-30 at 25.

³² USPS-T-39 at 89.

³³ USPS-T-30 at 22.

³⁴ USPS-T-30 at 25; *see also* APPA-T-1 at 10-12.

³⁵ $(\$0.23/\$0.076) (100\%) = 303\%$.

³⁶ DFC/USPS-4.

1 be considered in relation to the cost coverage for First-Class Mail cards and First-Class
 2 Mail letters. My proposed cost coverage of 263 percent is higher than the cost
 3 coverage for cards — 184 percent. Since the preprinted postage adds value and
 4 justifies a cost coverage that is higher than the cost coverage for private cards, a
 5 higher cost coverage is justified. I question, however, whether stamped cards should
 6 have a significantly higher cost coverage than letters, since letters carry more
 7 correspondence and offer greater privacy than cards.³⁷

8 Section 3622(b)(4) requires the Commission to consider the effect of a rate
 9 increase on the general public and businesses. Households and small businesses or
 10 organizations used stamped cards for a variety of correspondence.³⁸ The Postal
 11 Service's proposal for a 303-percent cost coverage fails to explain why these users
 12 should be subject to the highest cost coverage in the history of postal ratemaking. My
 13 proposal lowers this cost coverage and, therefore, appropriately prevents an unjustified
 14 rate increase.

15 Lastly, § 3623(c)(5) considers the "desirability of special classifications from the
 16 point of view of both the user and of the Postal Service." As I explained in § III.B.,
 17 *supra*, my proposed "Stamped Cards" rate is desirable for both customers and the
 18 Postal Service. Customers will benefit from a lower rate for stamped cards that reflects
 19 the lower processing costs of stamped cards, thus allowing them to share more directly
 20 in the benefits of automation. This lower rate also will send the proper price signal to
 21 customers, encouraging them to use a product that is more compatible with automation
 22 than private post cards. When customers use stamped cards instead of private post
 23 cards, the Postal Service benefits because stamped cards have a higher cost coverage
 24 (and lower costs) than private post cards (112 percent³⁹ versus my proposed 263
 25 percent). This classification will lower costs, thus benefiting customers and the Postal
 26 Service. This classification is highly desirable under § 3623(c)(5).

27 **D. Volume and Revenue Analysis**

28 As the volume and revenue analysis in table 1 on page 11 indicates, my
 29 proposal will cause net revenue to decline by \$21,930,510. This analysis uses witness
 30 Tolley's elasticities to calculate (1) the change in the TY 1998 after-rates stamped-card
 31 volume caused by a decrease in the price from 23 cents to 20 cents and (2) the change

³⁷ USPS-T-30 at 25; *see also* APPA-T-1 at 10-12.

³⁸ USPS-T-6 at 66-67.

³⁹ *See* USPS-T5-2(b), Attachment I, which indicates that the attributable cost for a private post card is \$0.187.

1 in the TY 1998 after-rates First-Class Mail single-piece letters volume caused by a
2 decrease in the price of stamped cards from 23 cents to 20 cents.

3 If my proposal is implemented, the three-cent price differential between stamped
4 cards and private post cards will cause some customers to shift from private post cards
5 to the lower-priced stamped cards. I did not calculate this effect because I do not have
6 the cross-price-elasticity of demand between stamped cards and private post cards.
7 However, this shift in volume will cause the Postal Service's net revenue to *increase*
8 because the net revenue for a stamped card will be over five times higher than the net
9 revenue for a private post card.⁴⁰ My calculation of a \$21,930,510 decline in net
10 revenue overestimates the decline in net revenue.

11 In addition, the Postal Service's own proposal overestimates the net revenue for
12 stamped cards. If the Postal Service sold stamped cards for 23 cents but charged only
13 21 cents for mailing a private post card, some customers would switch from stamped
14 cards to private post cards. The Postal Service's revenue would decline because
15 customers would be switching from a product that has a high cost coverage (stamped
16 cards) to a product that has a low cost coverage (private post cards). Thus, the Postal
17 Service's own volume and revenue estimates, on which I based my calculations,
18 overestimate the net revenue from the proposed two-cent stamped-card fee.

19 In summary, the substitution effect between stamped cards and private post
20 cards that my proposal would generate will have a positive effect on net revenue. The
21 Postal Service's proposed stamped-card fee also would cause a substitution effect, but
22 this effect would have a negative effect on net revenue. Since neither effect is included
23 in my calculation of a \$21,930,510 decline in net revenue, my proposal will cause a
24 significantly smaller decline in net revenue than \$21,930,510; however, I cannot
25 quantify the precise amount.

⁴⁰ See DFC/USPS-T5-2(b), Attachment I.

TABLE 1
VOLUME AND REVENUE ANALYSIS
(in millions)

	Single-Piece Letters	Stamped Cards	Single-Piece Private Cards
TY 1998 AR Volume Before Proposal	54,519.485 ⁴¹	583.005 ⁴²	2,476.656 ⁴³
Adjustments			
Own-Price Elasticity		12.768 ⁴⁴	
Cross-Price Elasticity w/Stamped Cards	(35.438) ⁴⁵		
Cross-Price Elasticity w/Private Cards		Not available	
Cross-Price Elasticity w/Stamped Cards			Not available
TY 1998 AR Volume After Proposal	54,484.047	595.780 ⁴⁶	2,476.656 ⁴⁷
Change in Net Revenue	(\$6,024,460) ⁴⁸	(\$15,906,050) ⁴⁹	0

⁴¹ USPS-T-6 at 62.

⁴² USPS-T-6 at 67.

⁴³ USPS-T-6 at 73.

⁴⁴ Own-price elasticity is -0.168. USPS-T-6 at 65, Table 4. $\% \Delta V = (-0.168) (\% \Delta P) = (-0.168) (-13.04\%) = 2.191\%$.
 $\Delta V = (583.005) (0.02191) = 12.768$.

⁴⁵ Cross-price elasticity is 0.005. USPS-T-6 at 38, Table 2. $\% \Delta V = (0.005) (\% \Delta P) = (0.005) (-13.04\%) = -0.065\%$.
 $\Delta V = (54,519.485) (0.00065) = 35.438$.

⁴⁶ This volume estimate does not include the likely increase in stamped-card volume due to a substitution effect between stamped cards and private cards. I do not have the cross-price elasticity of demand between stamped cards and private cards that would be necessary to estimate this substitution effect.

⁴⁷ This volume estimate does not include the likely decrease in private-card volume due to a substitution effect between private cards and stamped cards. I do not have the cross-price elasticity of demand between private cards and stamped cards that would be necessary to estimate this substitution effect.

⁴⁸ Average net revenue per single-piece letter is \$0.170. USPS-T-15J at 15. $(35,438,000) (\$0.170) = \$6,024,460$. Most customers who move from letters to stamped cards are likely to be mailing letters that weigh one ounce or less. Therefore, the average revenue and volume-variable cost for letters probably is not the best quantity to use for estimating the change in net revenue. However, it is the only number that is available. Also, the cost of processing a lighter letter may decline in proportion to the revenue; if so, \$0.170 would be the proper number to use.

⁴⁹ Attributable cost per stamped card is \$0.076. USPS-T5-2(b), Attachment I. $\text{Change in net revenue} = (583,005,000) ((\$0.23 - \$0.076)) - (595,780,000) (\$0.20 - \$0.076) = \$15,906,050$.

IV. POST-OFFICE BOXES

1 A. Introduction

2 The Postal Service proposes significant increases in the fees for Group C post-
 3 office boxes in sizes 1, 2, and 3. The fee increases range from 10.6 to 12.5 percent.⁵⁰
 4 For example, the annual fee for a size-1 box would increase from \$40 to \$45.⁵¹ This
 5 12.5-percent increase is nearly *triple* the 4.5-percent average rate and fee increase that
 6 the Postal Service seeks in this case.⁵²

7 Group C boxholders comprise a large constituency. Almost 95 percent of all
 8 Group A, B, or C boxes are Group C, size 1, 2, or 3.⁵³ Nearly 63 percent of all Group
 9 A, B, or C boxes are Group C, size 1.⁵⁴ The Postal Service has failed to explain why
 10 *8.3 million boxholders* should be singled out for a large fee increase that is nearly triple
 11 the average rate and fee increase that the Postal Service seeks in this case.

12 The Postal Service's proposed fee increase for boxes does not represent the
 13 Postal Service's first attempt to extract unreasonably high fees from boxholders. In
 14 Docket No. MC96-3, the Postal Service proposed a 25-percent fee increase for Group
 15 C, size-1 boxes.⁵⁵ The Commission rejected this fee increase, ruling that the Postal
 16 Service's arguments for "giving increased weight to demand when pricing post office
 17 boxes" were "unconvincing."⁵⁶ The Commission also noted that "Carlson and Popkin
 18 raise pertinent questions about the comparability of [post-office-box service and CMRA
 19 box service]."⁵⁷

20 In the current case, witness Needham merely recycles some thin, anecdotal
 21 testimony from Docket No. MC96-3 about demand for box service. She acknowledges
 22 that this case contains "no new evidence concerning demand for post office box
 23 service."⁵⁸ Unlike wine, evidence that the Commission found unconvincing a year ago
 24 does not improve with age. Therefore, by inference from the Commission's previous

⁵⁰ See USPS-T-39 at 59.

⁵¹ *Id.*

⁵² United States Postal Service *Postal News*, Release No. 64, July 1, 1997 (posted at www.usps.gov).

⁵³ See USPS-T-24 at 12, Table 7A.

⁵⁴ *Id.*

⁵⁵ Docket No. MC96-3, USPS-T-7 at 3, line 32.

⁵⁶ PRC Op. MC96-3 at 64.

⁵⁷ *Id.*

⁵⁸ Tr. 3/611 (DFC/USPS-T39-24).

1 opinion, the Postal Service's proposed fee increase for Group C, size 1, 2, and 3 boxes
2 is unjustified based on demand.

3 Witness Needham then asserts that boxholders receive an "extremely high
4 value[] of service."⁵⁹ Her use of the intensifier "extremely" was not accidental.⁶⁰ Since
5 the Postal Service is justifying this fee increase based on the supposedly "extremely"
6 high value of service, the Postal Service must prove that boxholders do, in fact, receive
7 an extremely high value of service.

8 **B. Time of Delivery**

9 Not only has the Postal Service failed to prove that boxholders receive an
10 "extremely high value of service," the Postal Service also has revealed that its
11 ratemaking staff knows little about the quality of the service that boxholders receive.
12 Specifically, witness Needham testified that businesses "may opt for box service to
13 receive their mail early in the day."⁶¹ She acknowledged that a business "probably"
14 would value receiving its mail at 8:30 AM higher than at 11:00 AM.⁶² However, the
15 Postal Service actually has no nationally collected data relating to the average or
16 typical cutoff time for distribution of mail to post-office boxes.⁶³ The Postal Service
17 volunteered that 8:30 to 9:00 AM is a "common cut-off time,"⁶⁴ but 10:00 or 11:00 also
18 could be "common" cutoff times. As I discuss below, the posted — but not the actual —
19 cutoff time for my box in Berkeley, California, is 11:00 AM. Berkeley is located in an
20 urban area approximately five miles from the Oakland P&DC, so transportation
21 constraints would not prevent an earlier cutoff time; therefore, Berkeley seemingly is a
22 typical urban city, and the cutoff time there is 11:00 AM. While businesses "may" opt
23 for box service to receive their mail early in the day, the Postal Service has not
24 provided evidence in the record sufficient to support the assertion that boxholders
25 receive their mail early enough in the day to justify the claim of an "extremely high
26 value of service."⁶⁵ Moreover, the Postal Service's claim applies only to businesses,
27 not individuals. The Postal Service also has not surveyed boxholders in regard to the

⁵⁹ USPS-T-39 at 66.

⁶⁰ See, e.g., Tr. 3/578–79 (DFC/USPS-T39-6).

⁶¹ USPS-T-39 at 61.

⁶² See Tr. 3/655.

⁶³ DFC/USPS-8(b).

⁶⁴ *Id.*

⁶⁵ I do not dispute the fact that box service allows many customers to receive their mail earlier in the day than if they received it by carrier delivery. Rather, the issue here is whether boxholders uniformly receive their mail so early as to support a claim that they receive an extremely high value of service that would justify this large fee increase.

1 time by which they need their mail,⁶⁶ even though, as witness Needham acknowledges,
 2 such a survey, if conducted, would demonstrate commitment to providing high-quality
 3 box service.⁶⁷ The Postal Service thus has failed to demonstrate that it is consistently
 4 meeting its customers' expectations or seeking feedback on its service, let alone
 5 actually providing an *extremely* high value of service.

6 **C. Consistency of Delivery by Posted Time**

7 Another factor in the value of service that a boxholder receives is the
 8 consistency of delivery by the cutoff time that is posted in the box lobby. Witness
 9 Needham acknowledged that a customer who needs his mail early in the day would
 10 value his box service higher if the mail were in his box consistently by the posted cutoff
 11 time than if he had to make multiple visits to his box due to inconsistent delivery or the
 12 post office's failure to meet the posted cutoff time.⁶⁸ The Postal Service has provided
 13 no information, however, concerning the consistency with which post offices distribute
 14 mail to the boxes by the posted cutoff time.⁶⁹ In fact, the Postal Service does not
 15 require that customers be informed of the time by which mail normally will be distributed
 16 to their box,⁷⁰ nor does it even have a national system for auditing or monitoring
 17 distribution of box mail.⁷¹ Thus, the Postal Service is asserting that boxholders receive
 18 an "extremely high value of service" even though it has not evaluated or commented on
 19 this crucial aspect of the service.

20 The problems with box service that I have identified hardly are hypothetical. In
 21 my post office in Berkeley, signs in the box lobby state that mail will be distributed to
 22 the boxes by 11:00 AM. The accuracy of this sign perhaps is best expressed by a
 23 handwritten addendum that someone has scribbled above one of the signs. It reads,
 24 "1:00 — Why lie?" Indeed, boxholders cannot count on receiving their mail by 11:00
 25 AM. On November 3, 1997, I visited my box during my lunch hour (at approximately
 26 12:30 PM). Some first-class letters were in my box, but there were no flats. I had to
 27 make a special trip to my box after work to check my mail again. When I did, I retrieved
 28 my flats. Although I do not have an exact count of the number of weekdays on which I
 29 have needed to make two trips, delivery is inconsistent enough that I do not have

⁶⁶ Tr. 3/664.

⁶⁷ Tr. 3/664-65.

⁶⁸ Tr. 3/656-57.

⁶⁹ DFC/USPS-9.

⁷⁰ DFC/USPS-8.

⁷¹ DFC/USPS-9.

1 confidence that I will have obtained all my mail for the day if I visit my box during my
2 lunch hour; therefore, I often wait until after work.

3 On Saturdays, the First-Class Mail *routinely* is not in my box before 12:00 or
4 12:30 PM. When I have gone to the post office around those times, the distribution to
5 my box often has been in progress. Sometimes distribution is not completed by 12:30
6 PM. Given this experience, I often do not even bother to go until after 2:00 PM
7 because I do not wish to make two 30-minute driving trips to the post office on Saturday
8 just to obtain my mail. On one Saturday in September, first-class flats were placed in
9 my box as I checked for mail at 2:30 PM. On Saturday, October 25, 1997, no mail was
10 in my box when I checked it at 11:45 AM, although my First-Class Mail was in my box
11 when I checked my box later in the day. On Saturday, December 20, 1997, additional
12 mail was placed in my box sometime after I checked it at 12:30 PM. Whether I wait
13 until late in the day to check my mail or make two trips, the value of service that I
14 receive is diminished. On the basis of consistency of box distribution, customers in
15 Berkeley certainly do not receive an "extremely high value of service."

16 Witness Needham suggested that customer feedback would provide evidence
17 about customer satisfaction with box service and the posted cutoff time.⁷² She
18 suggested that a customer could submit a Consumer Service Card if he were unhappy
19 with the existing cutoff time.⁷³ I followed witness Needham's suggestion and mailed a
20 letter to the postmaster in Berkeley on October 27, 1997, requesting consistent delivery
21 by 11:00 AM and asking that he consider setting a cutoff time earlier than 11:00 AM. In
22 the two months since I mailed that letter, service has not improved, the posted cutoff
23 time still is 11:00 AM, and the postmaster has not replied to my letter. Clearly, the
24 Postal Service in Berkeley hardly is committed to providing an "extremely high value of
25 service" to boxholders that would justify a fee increase that is nearly triple the average
26 rate and fee increase proposed in this case.

27 **D. Long Lines to Pick Up Mail**

28 In August and September 1997, I experienced another significant problem with
29 my box service in Berkeley. On several occasions, my mail volume exceeded my box
30 capacity due to the large number of flats that I was receiving during the discovery
31 phase of this case. I often was required to pick up the mail from the pick-up window.
32 On many occasions, I waited in line for over 10 minutes to pick up my mail. On one
33 day, I waited for 20 minutes, and on another day I waited for 25 minutes. Two or three

⁷² Tr. 3/664.

⁷³ *Id.*

1 times this fall, I have simply left the post office because I was unable to wait in a line
2 that obviously was at least 10 to 15 minutes long. Again, I have not received a high
3 value of service in this regard.

4 **E. Service in Other Cities**

5 The service that I received at my boxes in the California cities of Santa Cruz,
6 Walnut Creek, and Davis and in Seattle⁷⁴ was better than the service I received in
7 Berkeley, with box mail generally being delivered consistently by 9:30 AM. The service
8 in Walnut Creek was better than in Berkeley, with distribution generally completed by
9 9:30 AM, but at times service there was poor. In one memorable week in January
10 1994, during the mid-afternoon I had to plead with a supervisor to give me my mail,
11 since I had received no mail on that day and yet I could see by peering through my box
12 a tray cart full of mail sorted by box section. On another day, under the same
13 conditions, another supervisor denied that the post office had failed to distribute any
14 box mail and refused to assist me.

15 When I had a box for four years at the Sather Gate Station in Berkeley, on many
16 Saturdays I received no mail because the two window clerks also were responsible for
17 distributing the box mail, and when the line for window service became long they
18 devoted their attention to serving customers who were waiting in line. Usually I was
19 able to obtain my mail by waiting in line and then asking a clerk to sort through the mail
20 and pull my mail out; however, on one frustrating Saturday on Labor Day weekend in
21 1989, I was expecting several letters but was unable to obtain them even by waiting in
22 line because the clerk felt that the line for window service was too long. Meanwhile, I
23 could see the mail waiting to be cased, and the clerk readily acknowledged that mail
24 needed to be distributed to the boxes. I was unable to obtain my mail until Tuesday.
25 Witness Needham has acknowledged that some facilities require clerks to allocate their
26 time between window service and box distribution.⁷⁵ She acknowledges that this
27 arrangement could cause delay in the delivery of mail to the boxes.⁷⁶ Nonetheless, the
28 Postal Service has not studied or analyzed whether this situation might cause serious
29 problems that diminish the value of service that boxholders receive,⁷⁷ thus
30 undermining witness Needham's claim that boxholders receive an "extremely high
31 value of service."

⁷⁴ See Docket No. MC96-3, USPS/DFC-1(e) for a list of post-office boxes that I have used.

⁷⁵ Tr. 3/667.

⁷⁶ *Id.*

⁷⁷ *Id.*

1 **F. Conclusion**

2 In sum, the Postal Service has failed to explain why customers who hold Group
3 C, size 1, 2, or 3 boxes should be singled out for a 10.6- to 12.5-percent fee increase.
4 The Postal Service cannot base its case on demand. Moreover, the Postal Service's
5 claim that boxholders receive an "extremely high value of service" simply is
6 unsubstantiated, as the Postal Service has failed to evaluate significant issues about
7 the timeliness of delivery to boxes and other service problems. My testimony
8 admittedly describes the experience of only one person, but inferences from my
9 experiences can be drawn about the experiences of other boxholders at my facilities,
10 as my problems affected other boxholders as well. Perhaps more significantly,
11 however, my testimony provides more evidence about box service than the Postal
12 Service itself has provided in its own case. Quite simply, the Postal Service, as the
13 proponent of this large fee increase, has completely failed to meet its burden of proof.
14 Therefore, the Commission should approve either a smaller fee increase for Group C,
15 size 1, 2, and 3 boxes or no fee increase at all.

V. RETURN-RECEIPT SERVICE

16 **A. Introduction**

17 The Postal Service proposes a 32-percent increase in the fee for return receipts
18 that are purchased at the time of mailing. According to witness Plunkett, a fee increase
19 is appropriate because return receipts provide a "high" value of service.⁷⁸ In reality,
20 return-receipt service is plagued with problems, and the Commission should deny the
21 Postal Service any increase in cost coverage until service is improved to the level that
22 the Postal Service suggests that it is currently providing.

23 In DFC/USPS-T40-1, I posed a hypothetical question to witness Plunkett in
24 which a customer desired to obtain proof of delivery of a letter. For this question, I
25 asked witness Plunkett to suppose that the customer had two choices: (1) purchase
26 return-receipt service from the Postal Service or (2) not purchase return-receipt service
27 but instead enclose a self-addressed, stamped post card inside the letter; this card
28 would request that the recipient sign the post card, indicate the date of delivery and the
29 address of delivery (if the address was different), and mail the card back to the sender
30 promptly. Option (1) would cost the sender \$1.10, while option (2) would cost only
31 \$0.20 (plus the cost of the card). Witness Plunkett then explained the reasons why a

⁷⁸ USPS-T-40 at 14-15.

1 customer might prefer option (1) over option (2). According to witness Plunkett, the
2 following characteristics of return-receipt service contribute to the value of the service:

- 3 • By acting as a disinterested third party in confirming the date on which a piece of
4 mail was delivered, the Postal Service removes an opportunity for a recipient to
5 benefit from providing false information about the date of delivery⁷⁹;
- 6 • The Postal Service retains possession of the mail piece until the recipient signs
7 the return receipt⁸⁰; and
- 8 • *Postal Operations Manual* § 822.112 requires the Postal Service to mail the
9 return receipt back to the sender within one work day after delivery.⁸¹

10 As I will show, return-receipt service suffers from service problems that prevent
11 customers from enjoying these characteristics that comprise the value of the service.

12 **B. Service Problems**

13 As the Postal Service notes, many customers use return-receipt service when
14 they have a less-than-cordial relationship with the recipient and require accurate proof
15 of the date on which the recipient received the letter.⁸² I, for example, use return-
16 receipt service only when I need proof of receipt and have some reason to suspect that
17 the recipient will negligently or intentionally fail to acknowledge receipt. To be useful in
18 a legal proceeding, a receipt that purports to provide proof of delivery should have a
19 legible or recognizable signature — particularly if the recipient is a large business — as
20 well as the actual date of delivery. I have heard, for example, that judges in small-
21 claims courts may deem an absent defendant not to have been properly served with
22 notice of the hearing if the defendant was served by mail but the signature on the return
23 receipt is not legible. The actual date of delivery may be critical if the sender later tries
24 to prove that the recipient was aware of a situation or problem as of a certain date.

25 In my experience, the Postal Service does not consistently provide the sender
26 with a legible, useful signature. Noting that some people's signatures simply are not
27 legible, the Postal Service apparently tried to provide better service by adding a block
28 on the Form 3811, Domestic Return Receipt, for the recipient to print his name. The
29 Postal Service considers this block to be a service enhancement that is "particularly

⁷⁹ Tr. 3/848–50 (DFC/USPS-T40-1(b) and (c)).

⁸⁰ Tr. 3/865 (DFC/USPS-T40-15(b)).

⁸¹ Tr. 3/869 (DFC/USPS-T40-19(b)).

⁸² See Tr. 3/848–50 (DFC/USPS-T40-1(b)).

1 valuable to the sender if the recipient's signature is illegible."⁸³ The Postal Service
2 also has argued that this "print name" box has increased the value of return-receipt
3 service.⁸⁴

4 No postal employee has ever asked me to print my name in the "print name"
5 block on a return receipt. For example, during Docket No. MC96-3, the Postal Service
6 sent me 11 flats via certified mail, return receipt requested. The delivery employees
7 never requested that I print my name. In 1997, I have signed at least four more return
8 receipts; once again, I was not asked to print my name. During the summer, in the
9 course of my work at the university, I mailed a warning letter to a student via certified
10 mail, return receipt requested, since I wanted proof that this student received the letter.
11 The return receipt arrived with a signature that was so scribbled that it was illegible
12 except to the extent that the signature appeared to belong to someone other than the
13 student. The "print name" block was empty. I would have had a difficult time using this
14 return receipt as proof that someone in the student's household signed for the letter.

15 At the Commission hearing on October 7, 1997, witness Plunkett confirmed that,
16 of 16 return receipts that David Popkin had received recently, almost all were filled out
17 incorrectly, with most return receipts missing the printed name and others missing a
18 date of delivery or a date of delivery that included the year.⁸⁵ In sum, all the return
19 receipts that I have received and signed have not shown a printed name, and most of
20 the return receipts that Mr. Popkin discussed with witness Plunkett were filled out
21 incorrectly, often lacking the critical date information. Almost *all* our return receipts
22 have been filled out incorrectly. Clearly, a problem exists with return-receipt service.

23 Earlier this year, I discussed return-receipt service with my brother, who is an
24 attorney in Boston. He was very interested in my plan to oppose fee increases for
25 return receipt until the Postal Service improves the service. In fact, he told me that he
26 was upset with the poor service he receives for mail that he sends via certified mail,
27 return receipt requested, for his clients. Return receipts for mail that he sends to the
28 Internal Revenue Service in Holtsville, New York, and Andover, Massachusetts, and to
29 other large-volume recipients in Boston often do not arrive back at his office for several
30 days — many more days than he considers reasonable. In addition, contrary to
31 witness Plunkett's claim,⁸⁶ my brother — as well as many other customers of return-

⁸³ Docket No. MC96-3, Postal Service Initial Brief at 92.

⁸⁴ *Id.*

⁸⁵ Tr. 3/993-1000.

⁸⁶ Tr. 3/865 (USPS-T-40 at 15).

1 receipt service — does not have a reasonable selection of alternatives. While he must
2 protect his clients by obtaining proof of delivery, his only alternative is Express Mail, but
3 Express Mail is so much more expensive than return-receipt service that it is not a
4 practical alternative; besides, while Express Mail provides electronic and telephone
5 delivery confirmation, it does not provide a signed return receipt. My brother even tried
6 Express Mail, return receipt requested, about a dozen times and never received the
7 return receipt.

8 As witness Plunkett acknowledged, customers often use return-receipt service
9 because the Postal Service supposedly acts as a "disinterested third party" in
10 confirming the date on which an article was delivered.⁸⁷ Customers often do not view
11 their relationship with the recipient as cordial.⁸⁸ This situation likely applies with some
12 force, consistency, and uniformity when customers request a return receipt when they
13 mail their state and federal tax returns. Unfortunately, not only does the Postal Service
14 fail to provide the independent acknowledgement of delivery that customers are
15 expecting, the return receipts often are returned late, thus failing to provide another
16 aspect of the service that distinguishes return-receipt service from the less-expensive
17 option (2), the self-addressed post card, in my hypothetical question.⁸⁹

18 **C. David Popkin's Tax Returns**

19 On March 18, 1997, David Popkin mailed his federal tax return to Holtsville, New
20 York, and his state tax return to Trenton, New Jersey, via certified mail, return receipt
21 requested. As the correspondence contained in LR-DFC-2 indicates, the Postal
22 Service turned the return receipts over to the recipient tax agencies and allowed them
23 to complete the return receipts on their own, not under the supervision of the Postal
24 Service, thus failing to ensure that a "disinterested third party" — the Postal Service —
25 attested to the date of delivery.⁹⁰ Indeed, Mr. Popkin's Form 3811, Domestic Return
26 Receipt, indicates a date of delivery in Holtsville of March 24, 1997, but the Form 3811-
27 A, Request for Return Receipt (After Mailing), which was completed based on the
28 Postal Service's delivery record, shows March 20, 1997.⁹¹ Thus, the precise danger
29 that the Postal Service's procedure in Holtsville poses did, in fact, occur, and the Postal
30 Service failed to provide the service that Mr. Popkin purchased.

⁸⁷ See Tr. 3/848–49.

⁸⁸ Tr. 3/848–49 (DFC/USPS-T40-1(b)).

⁸⁹ Tr. 3/848–50 (DFC/USPS-T40-1).

⁹⁰ See LR-DFC-2 at 1C and 2C.

⁹¹ LR-DFC-2 at 1C.

1 The procedures in Trenton are even more alarming. The Trenton postmaster
2 writes that the Postal Service actually is "unfamiliar with the procedures" that the New
3 Jersey Division of Taxation uses to process return receipts once the mail leaves the
4 Trenton P&DC.⁹² Customers who purchase return-receipt service surely are not
5 expecting that the party against whom they are trying to protect themselves has
6 complete and unsupervised responsibility for processing the return receipts.
7 Unfortunately, however, the Postal Service's procedures for processing return receipts
8 in Holtsville and Trenton inflict a fraud on postal customers.

9 **D. Fresno IRS Service Center**

10 In this docket, the Postal Service has refused to acknowledge the existence of
11 these delivery arrangements⁹³ for return-receipt mail that violate its own procedures
12 and clearly lower the value of service that customers receive. In response, on
13 December 16, 1997, I took a tour of the Internal Revenue Service Center in Fresno,
14 California. During my tour, I spoke with an IRS employee who works in the "extracting"
15 room. Workers in the extracting unit remove tax returns from envelopes after the
16 envelopes have been sorted in the IRS' mail room. Over 100 employees work in this
17 large room during peak processing season. According to this employee, envelopes
18 arrive in the extracting unit with the green return receipts still attached. After the
19 employees remove the contents, these envelopes are returned to the mail room, where
20 IRS employees detach the return receipts, stamp them with a date, and return them to
21 the Postal Service. In a separate, private conversation, I confirmed this process with
22 the knowledgeable public-relations person who arranged my tour. During peak season,
23 she added, a few days may pass between an envelope's delivery to the IRS and its
24 arrival in the IRS' mail room or extracting unit. Thus, the date that the IRS stamps on
25 the return receipt seemingly will not necessarily be the actual date of delivery. Indeed,
26 Mr. Popkin's return receipt appears to have suffered this fate in Holtsville. Also, my
27 brother noted that the date that the IRS Service Center in Holtsville stamps on his
28 return receipts often is several days later than the date on which the letter should have
29 arrived based on normal mail delivery times. My brother is concerned that a later-than-
30 expected date on the return receipt suggests that he did not mail the envelope on time.

31 While my testimony discusses only three addressees, these agencies receive
32 millions of pieces of mail each year. Moreover, the number of letters to which return
33 receipts are attached is so high that the postmaster in Trenton considers the volume to

⁹² LR-DFC-2 at 2C.

⁹³ See Tr. 3/866-68 (DFC/USPS-T40-16-18).

1 be "overwhelming."⁹⁴ One can only wonder whether other large-volume recipients —
 2 such as the IRS Service Centers in Memphis, Philadelphia, and Kansas City, the
 3 Franchise Tax Board in Sacramento, or other state tax agencies — employ similar
 4 procedures in agreement with their local post office. The Postal Service's procedures
 5 differ tremendously from the requirements of DMM § D042.1.7, which specify that the
 6 addressee may "look at" a piece of accountable mail while the mail piece is being "held
 7 by the USPS employee" and that the "mailpiece may not be opened or given to the
 8 recipient before the recipient . . . legibly prints his or her name on the delivery receipt
 9 (and return receipt, if applicable) and returns the receipt(s) to the USPS employee."
 10 Unfortunately, the Postal Service has responded to the challenges inherent in
 11 delivering a large volume of accountable mail by ignoring the DMM regulations and
 12 denying the sender — the *customer* of return-receipt service — the service for which he
 13 paid \$1.10. The Postal Service perhaps has a right to respond to this challenge by
 14 denying customers the service for which they paid; however, the Postal Service cannot
 15 then ask the Commission for a 32-percent fee increase by claiming that return receipts
 16 provide a high value of service that is not adequately reflected in the current cost
 17 coverage.

18 **E. Address-Change Information**

19 Finally, as part of its case for a fee increase, the Postal Service notes that it is
 20 adding to the Form 3811 a box for the delivery employee to check to indicate that the
 21 recipient's address has not changed.⁹⁵ The Postal Service suggests that this check-off
 22 box will add value to the service.⁹⁶ For two reasons, this added value may be illusory.

23 First, as the Commission noted in its opinion in Docket No. MC96-3, 98 percent
 24 of non-merchandise users of return receipt did not purchase address-correction service
 25 when that service was available for an additional 40 cents.⁹⁷ The Commission noted
 26 that customers were not likely to find the address information more worthwhile in the
 27 future, either.⁹⁸ The Postal Service itself has *no* evidence to indicate the percentage of
 28 customers for whom the address information is of *any* positive value.⁹⁹ While a Form
 29 3811 that has a check-off box will provide better information to those customers who
 30 care about address information than a Form 3811 that does not have a check-off box,

⁹⁴ LR-DFC-2 at 2C.

⁹⁵ USPS-T-40 at 11.

⁹⁶ USPS-T-40 at 14.

⁹⁷ PRC Op. MC96-3 at 110.

⁹⁸ *Id.*

⁹⁹ Tr. 3/853 (DFC/USPS-T40-4); *see also* Tr. 3/851-52 (DFC/USPS-T40-2-3).

1 the address information nevertheless is of questionable value to most customers.
2 Without better evidence, the Postal Service cannot base a fee increase on the added
3 value of the address information.

4 Second, I am concerned that postal employees may not, in fact, be consistently
5 providing the address information on return receipts, just as they have failed to
6 implement use of the "print name" block. Four months ago, a delivery employee in
7 Berkeley was so poorly trained that he handed me a certified letter after I signed for it
8 and would have allowed me to walk away with the return receipt still attached to the
9 envelope; only because I stopped and asked him whether I should sign, detach, and
10 return the green Form 3811 to him did the sender receive his return receipt. I seriously
11 doubt that this employee would have completed my new address on the return receipt if
12 that letter had been forwarded.

13 Recently, I asked a window clerk the fee for sending a return receipt that would
14 provide me with the address of delivery. She punched a few buttons on her integrated
15 retail terminal (IRT), then replied, "\$2.75." I looked at the terminal display and saw that
16 "restricted delivery" was lit. I replied by stating my belief that restricted delivery was a
17 different service that was not applicable here. Puzzled, she pushed more buttons on
18 the IRT, then asked a woman who is either a manager or supervisor who was standing
19 nearby closing the post office at 5:00 PM. This woman stated that I would need to
20 purchase restricted delivery if I wanted more information than just the signature and
21 date of delivery. Her information, of course, was incorrect. One can only wonder
22 whether delivery personnel at this post office began automatically providing address
23 information on return receipts after the reclassification took effect on June 8, 1997.

24 I attempted to test the provision of address information. In August 1997, I filed a
25 series of change-of-address orders for my Emeryville post-office box to forward mail to
26 various addresses. A correspondent mailed me three letters via certified mail, return
27 receipt requested, from early to mid-September. The Emeryville post office failed to
28 forward these letters or to place a notice in my box. Rather, the Emeryville post office
29 held the letters until mid-October, two weeks after my final forwarding order ended, until
30 a day after I complained to a manager about my missing letters; only at that point did a
31 pickup notice arrive in my box. In November, I tried again, this time with another post-
32 office box. That post office completely ignored my change-of-address order, instead
33 continuing to deliver mail to my box.

1 **F. Conclusion**

2 The Commission is not charged with general oversight of Postal Service
 3 operations. However, when the Postal Service seeks a fee increase based on the
 4 value of the service, the level of service that customers receive is relevant. Return-
 5 receipt service is intermittent and, often, poor, frustrating customers who purchase this
 6 premium service. In 1996, Consumer Service Cards recorded 4,689 complaints about
 7 return-receipt service;¹⁰⁰ the actual number of complaints likely is much higher.¹⁰¹
 8 Contrary to witness Plunkett's suggestion, duplicate return receipts are not a solution
 9 for customers who receive poor return-receipt service. First, to file for a duplicate
 10 return receipt, a customer must wait in line at the post office — often a major
 11 inconvenience. Second, in the case of the IRS, customers must first suspect that the
 12 date on their return receipt is incorrect and then be aware that a duplicate return
 13 receipt would be completed based on a separate, possibly-more-accurate delivery
 14 record. Third, the duplicate return receipt is free only if the mailer chose to have his
 15 mailing receipt date-stamped; otherwise, he must pay \$6.60. Fourth, for Mr. Popkin's
 16 state tax return, even the duplicate return receipt was routed to the agency against
 17 whom he was trying to protect himself when he purchased return-receipt service.¹⁰²

18 Before the Commission recommends an increased cost coverage for return
 19 receipt, the Commission should require the Postal Service to conduct a study on the
 20 quality of return-receipt service, as the Commission suggested in Docket No. R90-1.¹⁰³
 21 Since the Postal Service refuses in rate proceedings even to acknowledge the
 22 problems that exist with return-receipt service, the Commission should withhold an
 23 increase in the cost coverage until the Postal Service has provided reliable evidence
 24 substantiating its claims about the high value of this service. The time has come to
 25 hold the Postal Service accountable for its poor return-receipt service.

¹⁰⁰ DFC/USPS-29 at 3.

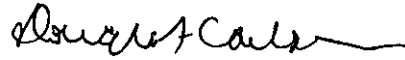
¹⁰¹ In the past year or so, eight of my Consumer Service Cards — almost all that I submitted during this time period — were ignored. The procedures described in DFC/USPS-15, which lead to recording of Consumer Service Card data, were not followed, thus casting doubt on the accuracy of Consumer Service Card data as representative of the number of complaints from customers on any subject.

¹⁰² LR-DFC-2 at 2B.

¹⁰³ PRC Op. R90-1 at ¶ 6576, fn. 10.

DECLARATION

I, Douglas F. Carlson, declare under penalty of perjury that I prepared the document titled Direct Testimony of Douglas F. Carlson (DFC-T-1) dated December 29, 1997, and that my testimony is true and correct, to the best of my knowledge, information, and belief.



DOUGLAS F. CARLSON

February 21, 1998
Emeryville, California

1 CHAIRMAN GLEIMAN: Did Mr. Carlson also provide a
2 declaration with respect to the designated written
3 cross-examination?

4 MS. DREIFUSS: Yes, he did. He provided a
5 declaration for each of the copies of designated written
6 cross-examination. I guess he anticipated that all answers
7 would be designated for the record, and the declaration so
8 states.

9 He signed each of those declarations, and let me
10 just add that he had revised two interrogatories, 13 and 19,
11 and those revisions are incorporated into the designated
12 packets.

13 CHAIRMAN GLEIMAN: That being the case, I'm going
14 to provide two copies of Witness Carlson's corrected
15 designated written cross-examination to the reporter and
16 direct that it be transcribed into the record at this point.

17 [Designation of Written
18 Cross-Examination of Douglas F.
19 Carlson, DFC-T-1, was received into
20 evidence and transcribed into the
21 record.]

22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF DOUGLAS F. CARLSON
WITNESS DOUGLAS F. CARLSON
(CARLSON-T1)

Party

Office of the Consumer Advocate

United States Postal Service

Interrogatories

USPS/DFC-T1-1-19, 19b, 20-37

USPS/DFC-T1-1-10, 13-14, 16-37

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
DOUGLAS F. CARLSON
WITNESS DOUGLAS F. CARLSON (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/DFC-T1-1
USPS/DFC-T1-2
USPS/DFC-T1-3
USPS/DFC-T1-4
USPS/DFC-T1-5
USPS/DFC-T1-6
USPS/DFC-T1-7
USPS/DFC-T1-8
USPS/DFC-T1-9
USPS/DFC-T1-10
USPS/DFC-T1-11
USPS/DFC-T1-12
USPS/DFC-T1-13
USPS/DFC-T1-14
USPS/DFC-T1-15
USPS/DFC-T1-16
USPS/DFC-T1-17
USPS/DFC-T1-18
USPS/DFC-T1-19
USPS/DFC-T1-19b
USPS/DFC-T1-20
USPS/DFC-T1-21
USPS/DFC-T1-22
USPS/DFC-T1-23
USPS/DFC-T1-24
USPS/DFC-T1-25

Designating Parties:

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OCA, USPS
OCA, USPS
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OCA, USPS
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— *Journal of the American Medical Association*, 1997

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[illegible]

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12826

USPS/DFC-T1-1. Please refer to your testimony at page 2, line 31, to page 3, line 8. Do you think that your proposal will reduce the use of picture post cards? Please explain your answer.

RESPONSE:

My proposed rate for stamped cards is not based on an expectation that a lower rate for stamped cards will reduce the use of glossy picture post cards. Rather, in the portion of my testimony to which you referred, I was explaining why stamped cards are more compatible with automation than private post cards. Glossy picture post cards provide a prime example of the poor automation compatibility of a segment of the private-post-card mail stream. I believe that mail with low cost characteristics, such as stamped cards, should receive a lower rate than mail with higher cost characteristics. I would hold this belief even if my proposed rate would not cause customers to switch from private post cards to stamped cards.

If my proposed rate for stamped cards were approved and implemented, a very small number of customers probably would shift from picture post cards to stamped cards. I would expect this small shift to occur among cost-conscious customers whose primary purpose for sending a post card is to communicate a greeting or message, not to send a picture. In future years, as the gap between the rate for private post cards and stamped cards widened, a greater shift possibly would occur. Witness Willette's testimony provides evidence indicating that customers do care about seemingly small rate differentials (see OCA-T-400 at 13-14), so some shift in volume, however small, probably is likely over the long run.

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USPS/DFC-T1-2. Please refer to page 4, line 13 of your testimony.

a. Please describe the uses you make of the 200 to 300 stamped cards you use per year.

b. With respect to each type of use you describe in your response to part (a), why do you use stamped cards instead of postcards?

RESPONSE:

a. While I consider my precise uses of stamped cards to be confidential, I will say that I use most of the stamped cards to request information from companies or organizations, communicate brief messages, and send test mail to myself.

b. I use stamped cards because I perceive them to be more compatible with automation than private post cards. During the 1980's, I made extensive use of both stamped cards and 4" x 6" index cards. Index cards seemed to experience a higher reject rate in the facer-canceller machines and in the OCR's and BCS's than stamped cards. Index cards felt more flimsy than stamped cards, and I attributed the increased problems to this flimsiness. After informally experimenting for several years, I began to use stamped cards almost exclusively. I still perceive index cards to process less successfully in the facing and sorting operations than stamped cards, although I have not run tests lately. On the few occasions recently on which I have used index cards, I recall problems with the postmark not printing clearly, perhaps because the cards are flimsy. Stamped cards seem more sturdy — or thick — than index cards.

The preaffixed postage of stamped cards also is convenient. However, I would not pay an additional cent — or two cents, as the Postal Service has proposed — for this convenience. Self-adhesive postage stamps and my postage meter offer sufficiently easy and convenient methods of affixing postage. I also believe that the colorful stamped-card designs are attractive. Again, though, I would prefer to save money on postage, so if stamped cards had a higher rate and fee than private post cards, I would use index cards. (I, personally, would refrain from using any card stock other than plain, white index cards because I try to make all my mail automation-compatible. Other cost-conscious customers who are less familiar than I with the Postal Service's mail-processing methods and automation requirements might switch to any of a variety of types, colors, and sizes of card stock.)

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12828

USPS/DFC-T1-3. Please refer to page 4, lines 13-22 of your testimony.

- a. Are the index cards you would substitute for stamped cards blank on both sides, or do they contain markings, such as ruled lines? If the latter, please describe any markings on the index cards.
- b. Do you consider these index cards to be as attractive as stamped cards?
- c. Why do you believe that these index cards might not be as compatible with automation as stamped cards? Please explain fully.

RESPONSE:

- a. The index cards that I would use are blank on both sides.
- b. This question is difficult to answer in the abstract. For example, I believe that the 20-cent Fire Pumper coil stamp and the 20-cent Blue Jay stamp look very attractive on index cards. Old 20-cent commemorative stamps from 1981-85 might be both attractive and unique on an index card. Of course, the indicia on stamped cards are attractive, too. However, if the cancellation included a slogan or special design, the indicia on most stamped cards would obscure the slogan while the white space on an index card would permit the slogan cancellation to show nicely. Also, since the indicia on modern stamped cards takes up quite a bit of space, the white space on an index card might allow the mailer to use an attractive address label or other design that would add style to an index card. Finally, often the cancellation on a stamped card covers part of my return address, while the slightly wider index card (6" versus 5½") allows the return address to remain unobscured. A cancellation that covers a return address is unattractive, potentially poses operational problems for the Postal Service, and may inconvenience the recipient.
- c. See my answer to USPS/DFC-T1-2(b). In essence, I perceive index cards to be more flimsy than stamped cards.

In proposing a lower rate for stamped cards, I am not primarily concerned that the Postal Service's proposal would cause customers to shift to the index cards that I would use, as the automation compatibility of some index cards may even be comparable to that of stamped cards. Instead, I observe, first, that customers likely will shift to any variety of types of private post cards, some of which will be compatible with automation and some of which will not be. Second, since stamped cards cost considerably less to process than private post cards, the rate for stamped cards should be lowered, not raised, as compared to the rate for private post cards. One simply cannot escape the fact that the Postal Service's proposal to increase the combined rate and fee for stamped cards is inequitable and unfair.

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12829

USPS/DFC-T1-4. Please refer to page 5, lines 20 to 22, of your testimony.

- a. Confirm that the current fee for stamped cards is 0 cents. If you cannot confirm, please explain fully.
- b. Where in this case has the Postal Service proposed increasing the fee for manufacturing a stamped card from one cent to two cents?

RESPONSE:

a. The stamped-card fee that is listed in DMCS Schedule SS-19A is \$0.00. The manufacturing costs of stamped cards are, however, attributed to the Stamped Cards and Post Cards subclass. Therefore, the 20-cent rate for post cards and stamped cards includes the manufacturing costs of stamped cards.

b. In the section of my testimony to which this question refers, I am explaining my proposed process for determining the rate for private post cards and stamped cards. Under my proposal, the rate for stamped cards would contain two components — a processing-cost component and a manufacturing-cost component. I then demonstrate how this process would work for the current case. For the manufacturing-cost component, I note that the manufacturing cost for a stamped card currently is one cent. I then apply the Postal Service's proposed 200-percent cost coverage to this manufacturing cost, and the final fee for the manufacturing cost increases from one cent to two cents.

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12830

USPS/DFC-T1-5. Please refer to page 6, lines 19 to 20, of your testimony. Do you believe that the benefits of hypothetical combined rates (postage plus the stamped envelope fee) for stamped envelopes would outweigh any benefits from having separate stamped envelope fees? Please explain fully.

RESPONSE:

The only benefit that I could see from having a combined rate for stamped envelopes would be a reduction in the small amount of customer confusion that may arise when customers purchase stamped envelopes and learn that stamped envelopes are sold for a price greater than the postage imprinted on the envelope. I suspect that this confusion is minimal, and customers who are confused at first will learn quickly.

I also believe that any confusion that resulted from the stamped-card fee that the Postal Service has proposed would dissipate fairly soon as customers learned about the fee.

For my proposal, I faced two choices: (1) Propose a single rate that would include the manufacturing costs and the appropriate markup, as I described in my testimony at pages 5–6; this rate would be imprinted on the cards, and the cards would be sold for that rate; or (2) Propose a new, lower rate for stamped cards (such as 18 cents), then allow a two-cent stamped-card fee to be added on. The second option would seem to create some confusion, however minimal, since the cards would be sold for a price that was higher than the postage rate printed on the cards. I believe that if the opportunity exists to avoid this possible confusion by selling the cards for the amount that is printed on them, we should pursue this opportunity. Also, if we pursued option (2), we would be in the odd position of having a unique rate for stamped cards — 18 cents — that no person could use without also paying a two-cent stamped-card fee. In other words, the postage rate that would apply to stamped cards would apply only to stamped cards, but this rate would be unavailable unless a customer paid an additional two cents to buy a stamped card. I see no reason to create a rate (e.g., 18 cents) that no one can use without buying a product and paying an additional fee (e.g., two cents, for a total of 20 cents). In contrast, stamped envelopes are subject to the same postage rate as a regular #10 envelope, so printing the regular postage rate on a stamped envelope makes more sense.

The prospect for confusion seems small. Nonetheless, given a choice, I selected the option that minimized the potential for confusion.

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USPS/DFC-T1-6. Please refer to page 6, line 34 and page 8, line 1 of your testimony. Please provide the calculation underlying your 263 percent proposed cost coverage for stamped cards.

RESPONSE:

The attributable cost for manufacturing and processing a stamped card is 7.6 cents. See Tr. 13/6993 (DFC/USPS-T5-2(b), Attachment I). My proposed rate is 20 cents. I divided 20 cents by 7.6 cents and multiplied by 100 percent to determine an implicit cost coverage of 263 percent:

$$(20) / (7.6) * (100\%) = 263\%$$

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USPS/DFC-T1-7. Please refer to page 9, lines 3 to 5, of your testimony. Does the stationery included as part of a stamped card also add value to the product, thereby justifying a cost coverage higher than private cards? If your response is in the negative, please explain fully, especially taking into consideration your view that preprinted postage adds value and justifies a higher cost coverage.

RESPONSE:

No. The stationery is a constant. If I buy a private post card, such as an index card, I will own a piece of stationery. If I purchase a stamped card, I also will own a piece of stationery. Either way, this piece of stationery will allow me to transmit a message through the mail.

The stamped card already has postage affixed to it, while I must affix postage to the index card. Therefore, I may derive some added value from the stamped card compared to the index card because the stamped card already has postage affixed to it. This added value results from the preaffixed postage, not the stationery.

A stamped card that was not also a piece of stationery — i.e., a card — would be nothing. For example, when I buy a stamped envelope, the fact that I receive an envelope as a result of my purchase does not “add value to the product” (except to the tautological extent that a stamped envelope that did not include an envelope would be worthless and would not even exist, while a stamped envelope that includes an envelope has some positive value). Instead, the added value of a stamped envelope that might justify a cost coverage higher than the cost coverage for a single-piece First-Class letter is derived from the preaffixed postage on the envelope, not the envelope itself.

My testimony omitted a significant disadvantage that preaffixed postage causes customers. If a customer spoils a stamped card, he potentially will have lost 20 cents, not the lesser cost of an index card. Customers who have stamped cards printed on offset presses risk losing 20 cents for each card that is spoiled during printing. Moreover, unless they print the exact number of cards, they will waste 20 cents for each excess card. (Customers may visit the post office to exchange spoiled cards for an 85-percent refund.) Lastly, customers who print large quantities of cards for use over the course of a year must invest 20 cents in each card at the time of printing, rather than paying 20 cents postage on each card throughout the year as they actually use the cards. These disadvantages reduce the value of the preaffixed postage.

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USPS/DFC-T1-8. In Docket No. MC95-1, the Postal Rate Commission defined subclass as follows:

As the Newspaper Association of America (NAA) correctly states on brief, '[i]n postal ratemaking, a subclass is a grouping of mail across which attributable costs are measured and averaged, and to which the Section 3622 ratesetting factors are applied for purposes of assigning a share of the Postal Service's institutional costs.' NAA Brief at 24 (footnote omitted).

PRC Op., Docket No. MC95-1, at I-3. Are you proposing that a subclass be created for stamped cards?

RESPONSE:

No. The changes that I am proposing appear on page 7 of my testimony.

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12834

USPS/DFC-T1-9. Please refer to your testimony at page 12, lines 9 to 11.

a. Please confirm that the test year cost coverage for post office box service at current rates is 99.60 percent (Exhibit USPS-30A, as revised 9/19/97, copy attached). If you do not confirm, please explain why not.

b. Please confirm that most of the cost coverages in Exhibit USPS-30A (as revised 9/19/97) are higher than 99.60 percent, and that the average cost coverage, excluding other costs and prior years loss recovery, is 170.86 percent. If you do not confirm, please explain why not.

c. Do you agree that increases of greater than 4.5 percent for post office box fees would be justified, simply to provide a contribution to "other" costs that is closer to the contribution from other subclasses of mail and special services? Please explain any response other than an unqualified "yes".

RESPONSE:

a. Confirmed. However, this number masks the fact that the proposed cost coverages for boxes in Group C, sizes 1–3 range from 145.7 percent to 151.8 percent. Tr. 3/572. Meanwhile, proposed cost coverages for Group D boxes range from 47.0 percent to 76.9 percent. *Id.* Fees for urban boxholders such as I should not be raised in order to increase an overall cost coverage that is being dragged down by Group D.

b. Assuming that the item "Volume-Variable Costs and Revenues" (line 49) represents the average cost coverage, I confirm both statements.

c. No. Docket No. R97-1 represents the first omnibus rate case in which I have participated. I am seeing for the first time how the Postal Service justifies cost coverages for various subclasses of mail and types of services, and I have yet to read how the Commission will judge and explain the appropriate cost coverage for each subclass or service. Therefore, I cannot agree that post-office boxes are underpriced.

Indeed, one could argue that post-office boxes should have a lower cost coverage than any class of mail, including Standard Mail, since without mail there would be no need for boxes. Since the need to receive mail drives demand for boxes, and since customers who receive carrier delivery must value receiving their mail higher than they would value a post-office box, the value of mail must be higher than the value of boxes. Therefore, to the extent that Parcel Post and Standard Mail (A) Single-Piece have a lower cost coverage than post-office boxes overall, perhaps the cost coverage for post-office boxes already is too high. In general, however, until I understand why each subclass or service has the cost coverage that it has, I cannot agree that a greater-than-average increase for boxes would be justified. I do know that a fee increase cannot be justified based on the value of the service that is being provided.

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USPS/DFC-T1-10. Please refer to your testimony at pages 12 through 18.

- a. Please confirm that you are eligible for carrier delivery to your residence. If you do not confirm, please explain why not.
- b. Do you currently receive any mail at your residence through carrier delivery?
- c. If you confirm part (a), please explain why you have chosen to receive your mail through a post office box rather than through carrier delivery to your residence?
- d. If you confirm part (a), please explain why you do not switch to carrier delivery in response to the problems you present in your testimony concerning post office box service.

RESPONSE:

- a. Confirmed.
- b. Yes, although almost all the mail is unsolicited advertising mail.
- c. I obtained box service when I moved to Emeryville in 1995 because:
 - (i) The Postal Service is one of my hobbies, and I generally enjoy going to the post office every day to pick up my mail;
 - (ii) At my previous addresses, a post-office box provided better security for my mail than carrier delivery, since large articles that arrive at apartment cluster mailboxes often are left out in the open, increasing the risk of theft. (This concern does not apply at my current address, as the mailboxes are inside a secured, monitored lobby, and the security concierge will sign for and store parcels.)
 - (iii) I can avoid revealing my street address to my correspondents;
 - (iv) My post-office-box address is easier to communicate to people over the telephone than my street address, especially since my address contains an apartment number;
 - (v) I believed at the time that I would be able to receive my mail earlier in the day than if I received carrier delivery.
- d. For the reasons described in part (c), I want to have a post-office box. I believe that I have a right to receive decent service, and I will not give up on this goal easily. I will continue to write letters of complaint to my postmaster and, soon, his superiors to try to resolve the problems. In the meantime, as the frustration and time that I waste due to this poor service mount, I will seriously consider moving my box to the Oakland P&DC when a freeway project is completed later this year, thus possibly making that office reasonably accessible and convenient to me.

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USPS/DFC-T1-11. Please refer to your testimony at page 15, lines 27 to 29.

- a. What size box do you use in Berkeley?
- b. Have any postal employees suggested that you obtain a larger box to receive the flat mail containing rate case materials?

RESPONSE:

- a. Size 1.
- b. No. I would be surprised if an employee made this suggestion, since, over the course of a year — even a year during which I am participating in an omnibus rate case — my mail exceeds the box capacity in an average year not more than one to three times per month. Moreover, while the overflows lately have been caused in part by the high volume of mail that I have been receiving, many of the overflows are attributable to the general delays in the delivery of First-Class flats to my box that I experience. According to a study that I conducted, between April 7 and 18, 1997, I received 40 First-Class flats. Of these 40 flats, 26 were delivered late by an average of 1.48 days. Between July 29, 1997, and September 23, 1997, I recorded deliveries of 174 flats. Of these 174 flats, 104 (59.8 percent) were delivered late by an average of 1.10 days. The pattern of late delivery posed a particular problem, as often the flats that were mailed from the Washington, DC, area early in the week did not arrive on Friday or Saturday but instead arrived on Monday or Tuesday, often along with Monday's flats. This clumping of my flats was at least as responsible for creating overflow situations as the general volume of flats that I was receiving. I would have resisted any attempt to require me to move to a larger box size because the Postal Service was failing to deliver all of my flats in a timely manner on a daily basis, thus itself contributing to the problem. I also would have objected because the clumping interfered with my participation in this case due to the delivery delays and the considerable effort that was required on certain days of the week to review the piles of rate-case-related documents when they finally arrived; I would not have wanted to bear an additional burden by moving to a larger box just to respond to a problem for which the Postal Service bore a significant responsibility. Lastly, given the problems that I have experienced with mail forwarding, I would have wished to avoid the need for my mail to be forwarded to another box.

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USPS/DFC-T1-12. Please refer to your testimony at page 17, line 21. Explain your understanding of the level of return receipt service that "the Postal Service suggests that it is currently providing."

RESPONSE:

The Postal Service represents to the public that it provides return receipts that indicate the actual date of delivery. For example, *Consumer's Guide To Postal Services and Products* (Publication 201, July 1996) advertises return-receipt service as providing "proof of delivery" and the "date that [the item] was delivered." This advertisement is clear and straightforward, since the date on which an item was delivered is just that — the date of delivery, not some other date. DMM § D042.1.7 clearly supports my interpretation of the service. Early in the case, witness Plunkett portrayed return receipt as deriving value from the three key characteristics that I described on page 18 of my testimony. I am confident that a survey would reveal return-receipt customers' belief that the Postal Service, not the recipient, places a true date of delivery on the return receipt. For example, customers who use return-receipt service to prove that their payment for a parking or traffic ticket arrived at the ticket agency by the deadline surely must purchase the service with the expectation that the Postal Service, not the ticket agency, will indicate the actual date of delivery on the return receipt. I cannot imagine why I would purchase return-receipt service for \$1.10 if the recipient were going to be responsible for filling in the date of receipt on the return receipt under conditions that prevented the Postal Service from acting as a disinterested third party in verifying the accuracy of the date of delivery and returning a properly completed return receipt to me within one day after delivery. Indeed, witness Plunkett notes that the Postal Service's role as a disinterested third party contributes to the value of the service, and he implies that this role is not trivial. See Tr. 3/848–50. If I knew that the recipient would be completing and mailing back my return receipt, I instead would enclose a self-addressed, stamped post card inside my letter and ask the recipient to mail the card back to me. The cost of this post card would be 20 cents, yet the card would be just as reliable (or unreliable) as the Postal Service's return receipt. I constructed the hypothetical question in DFC/USPS-T40-1 (Tr. 3/848–50) to determine why the Postal Service considers return receipts to be more valuable than my hypothetical post card and, thus, worthy of a \$1.10 fee. Witness Plunkett's explanation of the service suggested that the Postal Service currently is providing a valuable service, but the evidence about the practices for the IRS in Holtsville and Fresno and for the New Jersey Division of Taxation reveals that the Postal Service is not providing the quality of service that it suggests that it is providing.

Revised 2/6/98

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USPS/DFC-T1-13. Please refer to your testimony at page 17, line 22 through page 18, line 11. Is it your understanding that the three characteristics presented on page 18 represent an exhaustive list of the reasons why customers might prefer return receipt service to the hypothetical alternative presented by you on page 17, lines 25 to 26, of your testimony? Please explain your answer.

RESPONSE:

No. These three characteristics are elements of the service that, according to witness Plunkett, contribute to the value of return-receipt service. I agree with witness Plunkett. Moreover, I agree with his implication that these three characteristics are very important in distinguishing my hypothetical alternative from the Postal Service's return-receipt service as the service is described in DMM § D042.1.7. In fact, I believe that these characteristics are the *key* characteristics that distinguish my hypothetical alternative from return-receipt service as the service is described in DMM § D042.1.7. I designed the hypothetical alternative in DFC/USPS-T40-1 and the follow-up interrogatories thereto to learn the reasons why the Postal Service believes that return-receipt service, for which customers must pay \$1.10, would be better than my hypothetical alternative, which would cost 20 cents.

Witness Plunkett also wrote, "Furthermore, option 2 places greater demands upon the recipient for the provision of information. Senders who place a high value upon the time of the recipient, or who merely wish not to inconvenience the recipient would undoubtedly value option 1 more highly." Tr. 3/849. Witness Plunkett's assertion is dubious, however, because the need to visit the service window at a post office to sign for a piece of certified mail, or the need to answer the doorbell when the letter carrier arrives and sign for mail at the doorstep, is likely, in most cases, to impose a significantly greater burden on a recipient than my hypothetical option (2).

While I do not believe that this list of four characteristics is exhaustive, DFC/USPS-T40-1(c) did ask witness Plunkett to explain "*all* differences between option (1) and option (2) that might make option (1) more valuable than option (2)" [emphasis added]. Witness Plunkett filed this interrogatory response with a declaration under penalty of perjury that his answer was "true and correct, to the best of [his] knowledge, information, and belief," so these three characteristics, plus the unpersuasive fourth characteristic, are the only ones that the Postal Service should be citing in this case as distinguishing return-receipt service from my hypothetical alternative.

I am aware of at least one additional distinguishing characteristic. DMM § D042.1.7(b), if followed, would prevent the recipient from opening the envelope until

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the recipient had signed and printed his/her name on the return receipt and handed the return receipt back to the USPS employee. Of course, this procedure is not followed in the instances described in my testimony, so once again return-receipt service loses an element of value that would distinguish it from my 20-cent alternative.

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USPS/DFC-T1-14. Please refer to your testimony at page 20, line 18, to page 22, line 16.

- a. Please confirm that one reason taxpayers purchase return receipt service when they send a tax return to the Internal Revenue Service (IRS) is to learn whether, rather than when, the IRS received the tax return?
- b. What is the significance to the taxpayer of the exact date of receipt by the IRS of a tax return?
- c. Please confirm that a customer purchasing return receipt service in conjunction with certified mail service can receive a mailing receipt postmarked with the date of mailing on it? If you do not confirm, please explain why not.

RESPONSE:

a. I do not know all the reasons why taxpayers purchase return-receipt service when they send a tax return to the IRS, but I believe that it is reasonable to assume that some taxpayers are primarily concerned with whether the IRS received their return, not the date of delivery. On the other hand, other taxpayers, such as my brother, are concerned with the date of delivery. See DFC-T-1 at 21, lines 29–30. Either way, however, the main point is that the Postal Service is selling a service that provides the date of delivery. *Consumer's Guide To Postal Services and Products* (Publication 201, July 1996) advertises return receipt as providing “proof of delivery” and the “date that [the item] was delivered.” This advertisement is clear and straightforward, as the date on which the item was delivered is just that — the date of delivery, not some other date. DMM § D042.1.7 clearly supports my interpretation of the service. In violating its own regulations with respect to return-receipt service, the Postal Service apparently has improperly and without justification presumed that taxpayers do not, in fact, want the service that the Postal Service has committed itself to providing.

b. I have not studied the tax law in this regard, nor have I surveyed taxpayers. I can say that my brother cares about the date of delivery. Moreover, the date of delivery could be relevant if a taxpayer mailed his return via certified mail, return receipt requested, on April 14 using postage stamps and simply dropped the letter in a collection box instead of having the certified-mail receipt postmarked at the window. Suppose that the stamps then were not cancelled. Suppose, further, that the IRS received the envelope on April 15 but dated the return receipt April 17 — a situation that, based on the information contained in my testimony at pages 20–21 — very likely would occur during peak filing season. If the IRS then claimed that the taxpayer filed his return late, the taxpayer would find himself in quite a bind because the Postal Service failed to deliver the service for which he paid \$1.10. In fact, the return receipt

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might be considered evidence that he did *not* mail his return on time, if the delivery standard for his letter were overnight. Even a duplicate return receipt would not offer a satisfactory solution. First, the taxpayer might not know that a separate, more-accurate delivery record might exist and that, if he requested a duplicate return receipt, the Postal Service might consult this delivery record and possibly provide a correct date of delivery. (For one of Mr. Popkin's tax returns, the Postal Service forwarded the request for a duplicate return receipt to the New Jersey Division of Taxation for the addressee to complete.) Second, since the taxpayer did not have his certified-mail receipt postmarked at the window, he would be required to pay \$6.60 for his duplicate return receipt. Third, the duplicate return receipt might not arrive for over a month (see, e.g., LR-DFC-2 at 2A). Fourth, this process would, at best, be a major inconvenience to this taxpayer.

The type of situation described above hardly is hypothetical. In 1996, my friend mailed his tax return to the State of California Franchise Tax Board (FTB) via regular First-Class Mail on April 13, 1996. Over two months later, the FTB claimed that he filed his return late and demanded a late-payment and interest penalty from him. The FTB dropped the claim when it could not produce, at my friend's request, a copy of his mailing envelope. My friend had thought about using certified mail, return receipt requested, in the future to protect himself, until I shared with him the letter from the Postal Service contained in DFC/USPS-T40-XE-6, which indicates that the Postal Service turns over incoming certified mail to the FTB, with the return receipts still attached, and allows the FTB to remove the return receipts and return them to the Postal Service. In my friend's opinion, not only would return-receipt service not protect him in the event of future disputes, as he originally thought it would, a return receipt actually could harm his case because it purports to state the correct date of delivery, while in reality the FTB has exclusive control over the return receipts before a date is stamped on them. The FTB therefore could "lose" a letter for a month, then, upon "finding" the letter, detach the return receipt and return it to the Postal Service; a false date of receipt would be stamped on the return receipt.

c. Confirmed.

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12842

USPS/DFC-T1-15. Please refer to your testimony at page 21, lines 31-32.

- a. What is the basis of your assertion that these three addresses receive millions of pieces of mail each year?
- b. How much of this mail do you believe comes from customers who request return receipt service?

RESPONSE:

a. Printed information that I received on my tour of the IRS Service Center in Fresno indicates that the Fresno service center processes over 11 million returns each year. On the center's heaviest day each April, it receives nearly one million pieces of mail in one day. The Holtsville center probably receives a similar volume. The Trenton postmaster considers the volume of letters destined to the New Jersey Division of Taxation to which return receipts are attached — a subset of the total mail volume — to be "overwhelming."

The Postal Service is in the best position to provide this information, but the Postal Service refused to answer questions that intervenor David Popkin submitted on this subject. See DBP/USPS-106-171.

b. Please refer to DFC/USPS-T40-XE-9(b), where the Postal Service in Ogden, Utah, states that the IRS Service Center in Ogden uses a machine to sign the return-receipt cards "because of the sheer numbers of certified mail they receive. This can easily exceed hundreds of thousands monthly." The volume of mail to which return receipts are attached that the IRS Service Center in Ogden receives probably provides a ballpark estimate of the number of letters to which return receipts are attached that the Holtsville and Fresno IRS Service Centers receive. Hundreds of thousands monthly at two service centers will add up to very large numbers very fast. Moreover, the New Jersey Division of Taxation receives so many letters with return receipts attached that the Trenton postmaster considers the volume to be "overwhelming."

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12843

USPS/DFC-T1-16. Please refer to your testimony at page 24, line 6. Explain your use of the term "premium service" as it relates to return receipts.

RESPONSE:

By "premium service," I mean a service that is above and beyond the basic service that would be available for sending the mail piece. For instance, the basic service for mailing a letter would be single-piece First-Class Mail. Return receipt would be an additional, premium service. Certified mail and registered mail also would fit my definition of a premium service. When customers pay \$1.10 for a return receipt, I believe that they have made a significant postal expenditure and, therefore, have a right to expect a high quality of service. In fact, when customers make *any* postal expenditure, large or small, they have a right to receive the service for which they paid.

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12844

USPS/DFC-T1-17. Please refer to LR-DFC-2.

a. Please confirm that the letters on page 1C (second sentence) and 2C (last bulleted sentence) show that the Postal Service had a record of the date when both of Mr. Popkin's letters was [sic] delivered to the IRS. If you do not confirm, please explain why not.

b. With reference to the last bulleted sentence in the letter on page 2C, please provide the printout that was attached to the original letter to Mr. Popkin.

RESPONSE:

a. Confirmed. However, Mr. Popkin obtained the correct date of delivery only because (1) based on his past experience and the evidence produced in Docket No. MC96-3, Mr. Popkin was aware of delivery problems with return receipts and, therefore, *suspected* that the date provided on his return receipts might not be accurate; (2) he knew enough about the Postal Service to know that an independent date of delivery should exist; and (3) he went to the trouble of requesting a duplicate return receipt. (Fortunately, he had had his certified-mail receipt postmarked at the window, so he did not have to pay a \$6.60 fee for a duplicate return receipt.) The duplicate return receipt was not a satisfactory solution to the problem because visiting a window clerk to file for a duplicate return receipt was an inconvenience to Mr. Popkin and because Mr. Popkin's requests to Trenton for a duplicate return receipt were not answered for several weeks. In fact, his second request for a duplicate return receipt was forwarded to the addressee, the New Jersey Division of Taxation, against whom Mr. Popkin was trying to *protect* himself when he purchased return-receipt service. Then, the division indicated on the Form 3811-A that no record of delivery of his letter existed.

I believe that most customers will not suspect that the Postal Service allows some addressees to fill in the date of delivery on return receipts. Therefore, I believe that many taxpayers would not doubt that the date of delivery indicated on a return receipt was the actual date of delivery, even if the date of delivery seemed unusually late; therefore, they would unwittingly accept the incorrect information. Other customers are not likely to know that an independent record of delivery should exist or that duplicate return receipts are available and may elicit the correct information. A customer who lacked some of Mr. Popkin's knowledge and persistence probably would, for one reason or another, not ultimately obtain the correct information. I believe that many, if not most, mailers would not be able to resolve a situation similar to Mr. Popkin's as effectively as Mr. Popkin did.

b. See Attachment 1 to Response to USPS/DFC-T1-17(b).

SX1063G Article Search Program vs. 3.02

06/04/1997 09:57:51

Article	WS---	Date---	Seq#	Page	Item	Type	Other	To
Z715995900		12-03/24/97-0001	10	65				Taxation

Total items 1, items found 1
 Done. <Print Screen> to print, SPACE BAR to end.

DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

12846

USPS/DFC-T1-18. The Berkeley post office is currently classified as a CAG C office. Assuming that classification, do you prefer the Postal Service's proposal to increase the post office box fees there by 11 to 13 percent, or the Office of the Consumer Advocate's proposal to increase these fees by 40 percent? (See OCA-T-500 at 61.)

RESPONSE:

Since I have not extensively studied or analyzed witness Callow's testimony, I will assume for purposes of this interrogatory that his data and analyses are correct.

As a person who has received formal training in economics, I am attracted to witness Callow's proposal because it promotes economic efficiency. Cross-subsidization often is unfair, and apparently boxholders in small offices are subsidizing boxholders in large offices. Cross-subsidization sends customers the wrong price signal, thus possibly causing underuse of small-office boxes and overuse of large-office boxes. In general, I believe that cross-subsidization should be avoided unless the cross-subsidization advances other goals whose benefits outweigh the harm caused by the cross-subsidization. Indeed, I am proposing a lowered rate for stamped cards because I believe that stamped-card users unfairly are required to cross-subsidize users of private post cards, and any benefits of this cross-subsidization certainly do not outweigh the costs and perverse incentives that the incorrect price signals send.

Witness Callow's testimony does raise concerns of "rate shock." Moreover, if the Commission aligns box fees more closely with their costs, I would wonder why we still place such a high value on universal rates for First-Class letters instead of adjusting the rates based on distance or other costs. If box fees were adjusted but universal rates for First-Class letters were maintained, I would be concerned that boxholders in small, rural offices would be receiving a double benefit at the expense of boxholders in larger, urban offices. If mail-processing and delivery costs are higher in rural areas, urban mailers cross-subsidize rural mailers, but rural boxholders cross-subsidize urban boxholders. This situation achieves a sort of rough justice. However, if witness Callow's proposal is approved, the cross-subsidy for box fees would disappear, yet urban mailers still would be subsidizing rural mailers. Rural boxholders would benefit at the expense of urban boxholders. I am not certain that this result would be fair.

If I am required to pay higher fees as a result of this case, I would prefer to pay higher fees based on witness Callow's logical, economically sound proposal than based on the Postal Service's unsubstantiated assertions about the value of the box service that I receive.

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INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12847

USPS/DFC-T1-19. Please refer to your testimony at page 2, lines 11 to 25, where you quote part of the response of witness Patelunas to interrogatory OCA/USPS-T5-11 from Docket No. MC96-3.

a. Please confirm that you did not quote the beginning of witness Patelunas' response, which states:

There are no certain reasons for the difference in unit costs, although there are some speculative reasons. Part of the explanation may be that . . .

b. Please confirm that your testimony omits the second half of witness Patelunas' response, which states:

It is also possible that postal cards are misidentified as private cards during data collection. The relatively small volume of postal cards compared to the total volume of cards processed could cause data collection errors biased towards categorizing cards as private even if they aren't. This is not a new development nor has it gone unnoticed. Since Fiscal Year 1990, the unit cost of postal cards has been less than one-half of the unit cost of private cards. A remedy to the misidentification problem is proposed in this case: simply treat cards as cards without the postal-private distinction. As this question seems to postulate, there should be no distinction in costs other than the manufacturing costs. Providing a special service line item for stamped cards similar to stamped envelopes accomplishes this.

Docket No. MC96-3, Tr. 2/253 (Attached). If you do not confirm, please explain why not. When you respond, please include the attachment with the question.

c. Transcript volume 19F, containing materials designated from prior proceedings, contains only the first page of witness Patelunas' response, omitting the material quoted in part (b) above. Please confirm that you intended to designate the entire response to OCA/USPS-T5-11 into the record.

d. If you do not confirm part (c), please explain why your motion to designate evidence from Docket No. MC96-3, dated October 17, 1997, did not discuss your intent to include only the first page of the response in the Docket No. R97-1 record.

e. If you confirm part (c), would it have been better to cite both pages of the response in your motion to designate (Tr. 2/252-53), rather than just citing the first page of the response (Tr. 2/252)? Please explain your answer.

RESPONSE:

a. Confirmed.

b. Confirmed. See Attachment 1 to Response to USPS/DFC-T1-19(b).

c. I did not intend to designate the entire response into the record because I was not aware of the remainder of the response. In order to reduce my expenses, I do

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12848

not buy all transcript volumes. When I cleaned out my files after Docket No. MC96-3, I discarded the response to OCA/USPS-T5-11, mistakenly believing that the response appeared in a transcript volume that I owned. I obtained another copy of the response in October 1997 during my visit to Washington, but when I copied the interrogatory response I did not notice that the response continued onto another page, where the quoted language appeared. Therefore, when I filed the motion to designate evidence from Docket No. MC96-3, I unknowingly supplied the Commission with an incomplete copy of the interrogatory response. If I had been aware of the entire interrogatory response, I would have supplied the entire response. I believe that the record now will reflect the entire response to OCA/USPS-T5-11. I note, however, that the value of this omitted section is of questionable relevance in this case, as witness Alexandrovich has confirmed that "no studies or other analyses have concluded that the reliability of the cost data for postal cards" contained in Attachment 1 to DFC/USPS-T5-2(b) "has been affected in any significant way by the misidentification of stamped cards and other cards by IOCS data collectors." DFC/USPS-T5-12. In fact, he acknowledges that stamped cards historically have been less expensive to process than private post cards. DFC/USPS-T5-16. My testimony, along with witness Patelunas' response to OCA/USPS-T5-11, explains why stamped cards should be less costly to process than private post cards. Any suggestion that this cost differential is illusory due to data-collection errors is pure speculation.

- d. Please see my response to part (c).
- e. Please see my response to part (c).

Attachment 1 to Response to USPS/DFC-T1-19(b)

DOCKET NO. MC96-3
Pg. 2 / 253

Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-T5-11 continued:

It is also possible that postal cards are misidentified as private cards during data collection. The relatively small volume of postal cards compared to the total volume of cards processed could cause data collection errors biased towards categorizing cards as private even if they aren't. This is not a new development nor has it gone unnoticed. Since Fiscal Year 1990, the unit cost of postal cards has been less than one-half of the unit cost of private cards. A remedy to the misidentification problem is proposed in this case: simply treat cards as cards without the postal-private distinction. As this question seems to postulate, there should be no distinction in costs other than the manufacturing costs. Providing a special service line item for stamped cards similar to stamped envelopes accomplishes this.

**DOUGLAS F. CARLSON RESPONSES TO
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12850

USPS/DFC-T1-20. Please refer to your testimony at page 2, lines 27 through 31, where you state that some private post cards do not meet the automation compatibility requirements in specified DMM sections, and not all private post cards meet the reflectance requirements of DMM § C830.3.2.

a. Please confirm that some private cards do meet the automation requirements in the DMM sections you cite. If you do not confirm, please explain why not.

b. Please confirm that some private post cards meet the reflectance requirements in DMM § C830.3.2. If you do not confirm, please explain why not.

RESPONSE:

a. Confirmed with respect to DMM §§ C810.2.1, C810.2.2, C810.5.1, C830.3.4, and C830.6.1–C830.6.3. For DMM §§ C810.7.4 and C830.3.5, I do not have sufficient information to allow me to confirm, but I would not be surprised if some private post cards met these requirements.

b. While I do not have sufficient information to allow me to confirm this statement, I would surprised if this statement were not true.

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12851

USPS/DFC-T1-21. Please refer to your testimony at page 10, lines 3 to 5.

a. Why do you believe that some private post card customers will find a three-cent price differential a sufficient incentive to switch to stamped cards?

b. Please confirm that the private post card category includes a wide variety of types of cards, such as cards used for billing purposes, and picture post cards. If you do not confirm, please explain why not.

c. What types of private post cards do you believe would be most likely to switch to stamped cards?

d. Please confirm that the average cost for the private post card category includes a wide variety of costs, including the costs for cards used for billing purposes, and the costs for picture post cards. If you do not confirm, please explain why not.

e. Do you believe that private post cards which switch to stamped cards are likely to have costs below the average costs for all private post cards? Please explain your answer.

RESPONSE:

a. Some customers are sensitive to prices. The Postal Service's case for Prepaid Reply Mail seems to assume that some customers will appreciate the opportunity to save three cents by using PRM and that this savings will not be insignificant to them. Witness Tolley's elasticities indicate that the volume of post cards is sensitive to changes in price. In fact, the volume of First-Class *letters* is sensitive to the rate for *post cards*. If customers will shift between letters and cards based on the relative rates of the two types of mail, I believe that one can safely and reasonably assume that a three-cent price differential between private post cards and stamped cards will cause some customers to migrate from private post cards to stamped cards. As a specific example, I could foresee a merchant who wants to mail announcements about a grand opening of a new store to 1,000 customers deciding to use stamped cards instead of private post cards, since using stamped cards would save this merchant \$30 in postage plus the expense involved in applying postage to those cards. In fact, the operative price differential between private post cards and stamped cards is, in reality, three cents plus the expense that is saved in applying postage to the cards.

b. Confirmed.

c. I provided one example in my response to part (a). In addition, I could imagine that some people who use index cards to request information from businesses or organizations or to correspond with friends might switch to stamped cards. Without

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12852

having conducted a study of the post-card mail stream, however, I cannot provide additional specific examples.

d. Based on my understanding of the Postal Service's cost data, this statement seems likely to be true. However, the Postal Service presumably would be in a better position than I to provide a definitive answer.

e. I have not studied the post-card mail stream, nor have I surveyed customers who use post cards to determine which of them would be most likely to switch to stamped cards if a three-cent price differential were introduced. While the outcome posed in this question has some intuitive appeal, I believe that a reasonable possibility exists that the private post cards of customers who switch to stamped cards may not, in fact, represent the low-cost cards. For example, the merchant to which I referred in part (a) may now be sending cards that are too flimsy. Or, perhaps this merchant's cards are cut in a size such as 4¼" x 5¼" that fails to meet the minimum length-height aspect ratio for automation compatibility (1.24 versus the required 1.3). Cards that do not meet the aspect ratio still can be mailed at the post-card rate, without a nonstandard surcharge, yet they are incompatible with automation and, thus, more costly to process. See Supplemental Response of the United States Postal Service to Douglas Carlson Interrogatory DFC/USPS-11, filed December 12, 1997. Alternatively, this merchant might use a bright-color card stock for his cards, or perhaps he has a decorative address side of the card that interferes with OCR readability or contains obstructions in the bar-code clear area on the bottom of the card. Despite this merchant's penchant for design, he may decide to forgo some of the design elements on the front of the card in return for saving postage. In all these scenarios, none of which is unlikely, this merchant would be switching from a high-cost card to a low-cost card.

Given these possibilities, I have no basis for confirming that the customers who would switch from private post cards to stamped cards would be the ones who produce private post cards that have below-average processing costs.

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12853

USPS/DFC-T1-22. Please confirm that some stamped cards contain handwritten addresses, and some contain typed addresses. If you do not confirm, please explain fully.

RESPONSE:

Confirmed.

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12854

USPS/DFC-T1-23. Please refer to page 9, lines 25-26 of your testimony. How will the classification you propose "lower costs"?

RESPONSE:

My proposal will lower costs in the sense that it will encourage customers to shift from a card that costs, on average, 18.7 cents to process to a card that costs only 7.6 cents to process. Costs to the Postal Service and society will decrease. Presently, the rate structure does not send customers a price signal to indicate that they could save the Postal Service expenses by using stamped cards instead of private post cards, so customers overuse private post cards and underuse stamped cards. This outcome is less economically efficient, from society's point of view and the Postal Service's point of view, than the one that would result from my proposal.

In addition, since the cost coverage for stamped cards is higher than the cost coverage for private post cards, this reduction in costs would also increase the Postal Service's net revenue, because customers would be shifting from a product that has a lower cost coverage to a product that has a higher cost coverage.

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12855

USPS/DFC-T1-24. Please refer to page 13, lines 11-12 of your testimony.

a. Does the transcript cite in footnote 62 refer to the following?

Q And if that business wanted to receive its mail at 8:30 a.m. but that mail were not available until 11:00 o'clock a.m., that business would value receiving the mail at 8:30 higher than receiving it at 11 o'clock?

A Probably.

b. If your response to "a" above is no, please provide the exact cite.

c. If your response to "a" above is yes, is your statement on lines 11-12 presupposed on any conditional information such as the business wanting to receive its mail at 8:30 a.m.? If so, please specify.

RESPONSE:

a. Yes.

b. N/A.

c. My statement at page 13, lines 13–14, reflects witness Needham's acknowledgement that some businesses would place a higher value on receiving their mail at 8:30 AM than at 11:00 AM. I consider this fact to be obvious and self-evident, especially when a business receives checks or mail orders in its box mail; for those businesses, time literally is money. In fact, I believe that witness Needham's acknowledgement stands for a broader proposition: for many boxholders, the value that they place on their box service is proportional to how early in the morning they can obtain their box mail. In other words, earlier is better than later. Compared to 8:30 versus 11:00, an even larger number of businesses will prefer 9:00 over 11:00 or 9:30 over 11:00, since more businesses will be open and ready to receive mail at 9:30 than at 8:30. My use of 8:30 in my question to witness Needham would serve to limit the general applicability of the response, if at all, only to hours *earlier* than 8:30.

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12856

DFC/USPS-T1-25. Please refer to page 13, lines 16-20 of your testimony. Please provide all information, reports, dispatch time schedules, or other bases to support your statement that "transportation constraints would not prevent an earlier cutoff time".

RESPONSE:

On dozens of occasions during my drive to work, I have seen a large truck arriving at the Berkeley post office at 7:00 AM. Based on my general knowledge of postal operations, I believe that this truck carries a large quantity of First-Class Mail. In fact, I would be surprised if the Berkeley post office receives much First-Class Mail significantly after 7:00 AM.

As I noted on page 16 of my testimony, my box mail in Santa Cruz and Walnut Creek generally was distributed by 9:30 AM. The driving time for a truck between the San Jose P&DC and the Santa Cruz post office is approximately one hour. The driving time for a truck between the Oakland P&DC and Walnut Creek is approximately 30 minutes. In contrast, the driving time for a truck between the Oakland P&DC and the Berkeley post office is not more than 15 to 20 minutes. If the Santa Cruz and Walnut Creek post offices can consistently distribute mail to the post-office boxes by 9:30 AM, even though they are located farther from the P&DC than Berkeley is located from the P&DC, I do not believe that transportation constraints are responsible for the Berkeley post office's failure to distribute box mail even by the posted 11:00 AM cutoff time.

During my travels, I have seen box cutoff times of noon or later, but these late cutoff times existed at offices that were located in remote or rural locations. I believe that transportation constraints were responsible for these late cutoff times. Such transportation constraints do not exist in Berkeley, which is located in an urban area approximately five miles from the Oakland P&DC.

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12857

DFC/USPS-T1-26. Please refer to page 13, footnote 65 of your testimony. Do you believe that the only support for a claim of extremely high value of service for post office box service is that customers uniformly receive box mail early. If yes, please explain fully.

RESPONSE:

No. However, in support of witness Needham's claim that businesses "may opt for box service to receive their mail early in the day," I would have expected to see some evidence indicating that boxholders do, in fact, receive their mail early in the day. For example, the service level that I receive in Berkeley is inadequate to justify the assertion that boxholders in Berkeley receive an extremely high value of service. On the other hand, the Santa Cruz post office's consistent delivery by 9:30 AM provides, in my opinion, a high value of service. If Santa Cruz delivered the mail by 8:30 AM, the value of service would be even higher. In evaluating the value of the service that a particular post office provides, the Commission should consider the post office's performance under the conditions that constrain its activities. Urban post offices, which generally are located close to a P&DC, should be able to distribute box mail by early to mid-morning, while rural offices, due to transportation constraints, understandably may still provide a high value of service if they distribute the box mail by 11:00 AM. However, missing from the Postal Service's case is any data or evidence substantiating the claim that boxholders nationwide receive their mail early enough in the day to justify a claim of an extremely high value of service. The experiences that I have described in my testimony at pages 13–16 indicate that significant problems exist with post-office-box service.

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12858

USPS/DFC-T1-27. Please refer to your testimony at page 14, lines 7 to 11.

a. Quote the language by which witness Needham acknowledged that a customer would value his box service higher if the mail was placed in his box consistently by the posted cutoff time.

b. Quote the language by which witness Needham acknowledged that the reasons for a customer making multiple visits would be inconsistent delivery or the post office's failure to meet the posted cutoff time.

RESPONSE:

a.-b. See Tr. 3/655, line 22, through Tr. 3/657, line 11. Witness Needham acknowledged the rather obvious fact that a customer who needs his mail early in the day and wishes to make only one trip to the post office per day would prefer to be able to go to the post office at 8:30 AM and pick up all his mail instead of making two trips — one at 8:30 AM and then another trip at 11:00 AM, the purpose of the latter trip being to pick up any mail that was not delivered by 8:30 AM.

My question to which witness Needham was responding states, in part, "the mail sometimes is in the box by 8:30 a.m. but sometimes it is not delivered until 11 o'clock a.m. so customer A who needs his mail early in the day must make two trips to the Post Office every day to ensure that he has picked up all of that day's mail?" Tr. 3/656, lines 6–10. The situation posed in this question is synonymous with "inconsistent delivery." Witness Needham answered my question without charging that its premise was faulty or not plausible. Therefore, she has implicitly acknowledged that inconsistent delivery may cause a customer to need to make two trips to the post office each day to check his mail.

In her response to this question, witness Needham also did not testify that her answer depended on any particular reason why this customer went to the post office at 8:30 AM or expected his mail by 8:30 AM. Thus, her answer applies regardless of the reason why this customer goes to the post office at 8:30 AM. I suggest that signs in the box lobby indicating that the mail will be distributed to the boxes by 8:30 AM are one reason why this customer might go to the post office every day at 8:30 AM or expect his mail by 8:30 AM. Witness Needham was aware that some post offices post a sign in the lobby to indicate the time by which First-Class Mail will be delivered to the boxes (see Tr. 657, lines 12–17), yet she did not indicate that her answer did not apply to the case of a posted sign.

My point is clear and valid: customers are significantly inconvenienced when their post office fails to distribute box mail by the posted cutoff time.

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12859

USPS/DFC-T1-28. Please refer to your testimony at page 20, lines 1 to 4.

a. Is Express Mail the only alternative to return receipt service? Are there any non-postal alternatives? Please explain.

RESPONSE:

a. Express Mail is not a functional or cost-effective alternative to return-receipt service, as Express Mail does not provide the sender with a signed return receipt. Moreover, although Express Mail provides the sender with electronic and telephone delivery confirmation — confirmation that, in my experience, can be delayed and unreliable — Express Mail costs a minimum of 9.8 times as much as return-receipt service. This cost differential alone prevents Express Mail from being a practical alternative to return-receipt service.

I am not familiar with any non-postal alternatives to return-receipt service that provide a signed, hard-copy delivery receipt to the sender. However, if an alternative does exist, due to the Private Express Statutes this service must be connected to an expedited service. Expedited services cost considerably more than the \$1.10 fee for return receipt. In much the same way that costly FedEx service is not an alternative to regular First-Class Mail for a person who wishes to send a nonexpedited letter, Express Mail is not an alternative to return-receipt service.

My lack of familiarity with alternatives to return receipt itself suggests that the alternatives to return receipt are few or nonexistent and that, if alternatives exist, they are not sufficiently well known to the public to act as alternatives that should be considered under 39 U.S.C. § 3622(b)(5).

DOUGLAS F. CARLSON RESPONSES TO
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Revised 2/20/98

12860

USPS/DFC-T1-29. Please refer to your testimony at page 20, lines 8 to 10, and footnote 87. Please confirm that at the transcript cite you provide (Tr. 3/850) witness Plunkett did not acknowledge that "customers often use return receipt service because the Postal Service supposedly acts as a 'disinterested third party' in confirming the date on which an article was delivered." If you do not confirm, please explain why not.

RESPONSE:

Witness Plunkett acknowledged that the Postal Service "acts as a 'disinterested third party' in confirming the date on which an article was delivered" at Tr. 3/849 (DFC/USPS-T40-1(c)). Support for my statement that customers "*often* use return-receipt service because the Postal Service supposedly acts as a 'disinterested third party' in confirming the date on which an article was delivered" [emphasis added] appears at Tr. 3/848-49 (DFC/USPS-T40-1(b)), where witness Plunkett stated that "many" return receipts are used in conjunction with ongoing legal proceedings in which the recipient may benefit from the provision of faulty information about the date of delivery and that the *cordial* relationship between that sender and recipient that my interrogatory implied is "not typical." My use of the word "often" captures the essence of witness Plunkett's response.

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-30. Please reconcile your testimony at page 5, lines 1 to 2, where you talk about holding the stamped card rate at 20 cents for many years, with your testimony at page 8, lines 25 to 26, where you talk about laying the groundwork for a lower rate for stamped cards in future cases.

RESPONSE:

If the Commission recommends and the Postal Service implements a 20-cent rate for stamped cards in this case, the rate for stamped cards likely will be held lower than the rate for private post cards in future cases as well. Since the processing costs of stamped cards are significantly less than 20 cents, I believe that the rate for stamped cards should be held at 20 cents for many years until the processing costs rise to a level where the cost coverage begins to decline to an unacceptably low level. In contrast, the rate for private post cards presumably will continue to rise in each subsequent case as costs rise. Thus, my proposed rate will lay the groundwork for a rate for stamped cards that will be lower than the rate for private post cards not only in this case but in future cases as well. I believe that the gap between the two rates should widen in future cases.

12862

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-31. Please refer to your testimony at page 8, lines 12 to 24, and your response to interrogatory USPS/DFC-T1-20. Is the Postal Service's proposal also "indefensible, unfair, and inequitable" for the subset of private post cards that share the cost characteristics of stamped cards (e.g., those private cards that meet the automation-compatibility requirements and background-reflectance requirements discussed on page 2 of your testimony)? Please explain your response.

RESPONSE:

Private post cards cost more to process than stamped cards. However, the Postal Service proposes to charge 21 cents for private post cards and 23 cents for stamped cards. I am unsure why a proposal to charge a lower rate for automation-compatible private cards than for stamped cards would be defensible, fair, or equitable, given that private post cards generally cost more to process than stamped cards or, in this hypothetical question, at minimum *share* cost characteristics with stamped cards.

Note that rate categories sometimes require costs to be averaged. For example, the clean, metered, typewritten, one-ounce letters that I mail surely cost less to process than stamped, handwritten Christmas cards in bright red envelopes that create readability problems for bar codes and require use of the RBCS system. Nonetheless, the proposed rate for both letters is 33 cents. As another example, consider two letters. The first letter is typewritten and stamped and is mailed from Philadelphia to Baltimore. The proposed rate for this letter is 33 cents. The second letter is pre-bar-coded Prepaid Reply Mail. This letter is mailed from Philadelphia to Alaska. The proposed rate for this PRM letter is 30 cents. The first letter probably incurs lower costs than the PRM letter destined to Alaska. However, the rate structure is defensible because, on average, PRM letters incur lower processing costs than single-piece letters. In addition, a rate structure that charged different rates for every letter depending on the automation compatibility and distance of travel of each letter likely would be unwieldy.

I recognize that some automation-compatible private post cards may incur costs as low as the costs for stamped cards. However, as the cost data suggest, most private post cards incur higher costs than stamped cards. The current rate structure makes no attempt to recognize this cost differential by providing a discount to stamped cards. And now, in this case, the Postal Service proposes to charge a *higher* rate and fee for stamped cards. I propose to improve the fairness and equity of the rate structure by creating a special rate category for stamped cards that reflects the lower cost characteristics of stamped cards compared to private post cards. Although some private post cards may incur costs as low as stamped cards, my proposal nevertheless will improve the *overall* fairness, equity, and logic of the rate categories.

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-32. Please refer to your testimony at page 10, lines 7 to 9. Please confirm that your conclusion that "net revenue for a stamped card will be over fives [sic] times higher than the net revenue for a private post card" assumes a stamped card and a private post card with average costs as shown in the FY 1996 CRA. If you do not confirm, please explain why not.

RESPONSE:

Confirmed.

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**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-33. Please refer to your response to USPS/DFC-T1-13, where you claim:

Witness Plunkett filed this interrogatory response with a declaration under penalty of perjury that his answer was 'true and correct, to the best of [his] knowledge, information, and belief,' so these three characteristics are the only ones that the Postal Service should be citing in this case as distinguishing return-receipt service from my hypothetical alternative.

Please confirm that in his interrogatory response witness Plunkett also indicated that customers might view return receipt service as more valuable than the hypothetical alternative because return receipt service imposes fewer demands on the recipient of the mail piece. If you do not confirm, please explain why not.

RESPONSE:

Please refer to the revised response to USPS/DFC-T1-13, dated February 6, 1998.

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12865

USPS/DFC-T1-34. Please refer to your response to interrogatory USPS/DFC-T1-19.

a. Please confirm that your response refers to part a of witness Alexandrovich's response, which states that "CRA unit mail processing costs for postal cards have historically been lower than those of private postcards, on average." If you do not confirm, please explain why not.

b. Please confirm that parts b and c of witness Alexandrovich's response explained how these CRA costs for postal cards might be understated. If you do not confirm, please explain why not.

RESPONSE:

a. My citation in USPS/DFC-T1-19(c) to DFC/USPS-T5-16 refers to DFC/USPS-T5-16(a). The question to witness Patelunas read, in pertinent part, "Do you believe that stamped cards are less expensive to process than private post cards?" I also asked witness Alexandrovich to explain any answer that was other than an unqualified yes. He responded, "CRA unit mail processing costs for postal cards have historically been lower than those of private post cards, on average."

b. I can confirm that witness Alexandrovich's answer to DFC/USPS-T5-16(b) was in response to the question I posed in DFC/USPS-T5-16(b) and that his answer to DFC/USPS-T5-16(c) was in response to the question I posed in DFC/USPS-T5-16(c). I cannot personally vouch for the accuracy of these responses.

These responses should be read in conjunction with witness Alexandrovich's response to DFC/USPS-T5-12 and my response to USPS/DFC-T1-19(c). In DFC/USPS-T5-12, witness Alexandrovich confirmed that "no studies or other analyses have concluded that the reliability of the cost data for postal cards" contained in Attachment I to DFC/USPS-T5-2(b) "has been affected in any significant way by the misidentification of stamped cards and other cards by IOCS data collectors."

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12866

USPS/DFC-T1-35. Please refer to your response to interrogatory USPS/DFC-T1-22. Is your proposal preferable to an alternative proposal in which all automation-compatible cards with handwritten addresses (private or stamped) would be eligible for the rate you propose for stamped cards? If so, please present all reasons why.

RESPONSE:

I am not aware of an "alternative proposal" that any party has advanced in this case that fits the description of the "alternative proposal" mentioned in this interrogatory. I have provided detailed theoretical and statutory justifications for my proposal, and I would presume that another party's "alternative proposal" would be accompanied by a similarly detailed explanation of the theoretical and statutory justifications for the proposal. I do not believe that I could meaningfully compare my proposal to another proposal unless I were first able to review and analyze the theoretical and statutory justifications of the "alternative proposal."

12867

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-36. Please refer to your response to interrogatory USPS/DFC-T1-23.

a. Please confirm that lowering Postal Service costs and increasing net revenue depend on the cost characteristics of the cards that switch to stamped cards, rather than the average costs you cite. If you do not confirm, please explain why not.

b. Please confirm that costs will not be lowered, nor net revenue increased, when a private card with the same cost characteristics as stamped cards switches to a stamped card. If you do not confirm, please explain why not.

c. Please confirm that under your proposal net revenue would be decreased when a private card with the same cost characteristics as stamped cards switches to a stamped card with a lower rate. If you do not confirm, please explain why not.

RESPONSE:

a. Strictly speaking, the incremental effect on costs and net revenue when a customer uses a single stamped card instead of a single private post card will depend on the cost characteristics of each card. In the aggregate, however, some high-cost private post cards may shift to stamped cards, and some low-cost private post cards may shift to stamped cards. Thus, the average costs of private post cards and stamped cards may, in fact, be reliable figures for measuring the overall effect on costs and net revenue.

b. Confirmed.

c. Confirmed.

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

12868

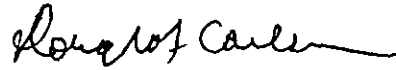
USPS/DFC-T1-37. Please refer to your response to interrogatory USPS/DFC-T1-28. Please confirm that Express Mail and private expedited services provide additional benefits (such as expedited delivery), in comparison to First-Class Mail with return receipt service, that might offset the higher costs for some customers. If you do not confirm, please explain why not.

RESPONSE:

Not confirmed. I am not sure I understand how additional benefits would "offset the higher costs for some customers," as all customers would be required to pay the higher costs regardless of any benefits that they might receive. I can confirm that Express Mail and private expedited-delivery services may provide faster delivery than First-Class Mail. However, for a customer who wishes to obtain a return receipt and who does not require expedited delivery, I do not know how an expedited service could be considered a cost-effective alternative to return-receipt service. The mere fact that the expedited service would provide faster delivery should not erase the burden imposed on a customer for paying for expedited service that he did not need.

DECLARATION

I, Douglas F. Carlson, declare under penalty of perjury that my responses to interrogatories USPS/DFC-T1-1-37 are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Douglas F. Carlson", written over a horizontal line.

DOUGLAS F. CARLSON

February 21, 1998
Emeryville, California

1 CHAIRMAN GLEIMAN: Thank you very much. I
2 appreciate your help on that, Ms. Dreifuss.

3 Mr. Olson.

4 Our next witness is Dr. Haldi, who is already
5 under oath pursuant to his many appearances here already in
6 this docket, and if you want to proceed to enter his direct
7 testimony.

8 MR. OLSON: Thank you, Mr. Chairman, William
9 Olson, representing Nashua, District, Mystic, and Seattle.
10 Whereupon,

11 DR. JOHN HALDI,
12 a witness, was called for examination by counsel for Nashua
13 Photo, inc., , District Photo, Inc., Mystic Color Lab, and
14 Seattle Filmworks, Inc. and, having been previously duly
15 sworn, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. OLSON:

18 Q Dr. Haldi, I'd like to hand you two copies of what
19 is entitled the Direct Testimony of Dr. John Haldi
20 concerning the First Class nonstandard surcharge on behalf
21 of Nashua, District, Mystic, and Seattle, which has been
22 identified and designated as NDMS-T-1, and ask you if that
23 testimony was prepared by you or under your direction.

24 A Yes, it was.

25 Q And do you have any changes or would you adopt

1 that testimony as it stands today?

2 A I adopt it as it stands with no changes or errata.

3 MR. OLSON: Mr. Chairman, we would move the
4 admission of this testimony into evidence.

5 CHAIRMAN GLEIMAN: Are there any objections?

6 Hearing none, Dr. Haldi's testimony and exhibits
7 are received into evidence, and I direct that they be
8 transcribed into the record at this point.

9 [Direct Testimony and Exhibits of
10 Dr. John Haldi, NDMS-T-1, was
11 received into evidence and
12 transcribed into the record.]
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NDMS-T-1

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

POSTAL RATES AND FEE CHANGES, 1997

Docket No. R97-1

Direct Testimony of

DR. JOHN HALDI

Concerning

THE FIRST-CLASS NONSTANDARD SURCHARGE

on Behalf of

NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.

William J. Olson
John S. Miles
Alan Woll
John F. Callender, Jr.
WILLIAM J. OLSON, P.C.
8180 Greensboro Dr., Suite 1070
McLean, Virginia 22102-3823
(703) 356-5070

Counsel for Nashua Photo Inc.,
District Photo Inc.,
Mystic Color Lab, and
Seattle FilmWorks, Inc.

December 30, 1997

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AUTOBIOGRAPHICAL SKETCH

My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 680 Fifth Avenue, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

From 1958 to 1965, I was assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of Budget. While there, I was responsible for overseeing implementation of the Planning-Programing-Budgeting (PPB) system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

1 I have written numerous articles, published consulting studies, and co-
2 authored one book. Included among those publications are an article, "The
3 Value of Output of the Post Office Department," which appeared in *The*
4 *Analysis of Public Output* (1970); a book, *Postal Monopoly: An Assessment of*
5 *the Private Express Statutes*, published by the American Enterprise Institute
6 for Public Policy Research (1974); an article, "Measuring Performance in Mail
7 Delivery," in *Regulation and the Nature of Postal Delivery Services* (1992);
8 and an article, "Cost and Returns from Delivery to Sparsely Settled Rural
9 Areas," in *Managing Change in the Postal and Delivery Industries* (1997;
10 with L. Merewitz).

11 I have testified as a witness before the Postal Rate Commission in
12 Docket Nos. MC96-3, MC95-1, R94-1, SS91-1, R90-1, SS86-1, R84-1, R80-1,
13 MC78-2 and R77-1. I also submitted comments in Docket No. RM91-1.

I. PURPOSE OF TESTIMONY

The purpose of this testimony is to present a comprehensive review of the First-Class nonstandard surcharge. A series of rate cases conducted over the past two decades have accepted the nonstandard surcharge without scrutiny. A number of important concerns raised initially by the Postal Rate Commission in Docket No. R78-1 have lain dormant for nearly 20 years — not because they are unimportant, or have ever been resolved, but because neither the Postal Service nor any organized group of mailers has invested the time and resources required to examine either the assumptions undergirding the surcharge or the methodology used to estimate costs.

The initial decision to de-average rates and adopt a surcharge for nonstandard pieces is now over 20 years old. Mail subject to the surcharge is handled very differently in 1997 than it was in the 1970s. In view of the Postal Service's proposed 45 percent increase in the surcharge, the issue of the surcharge should be revisited in its entirety.

Additionally, issues raised by the First-Class nonstandard surcharge have a significance that extends beyond this particular rate category. The matter deserves to be considered afresh and anew by the Commission.

1 **II. INTERVENORS' MAILING PRACTICES AND INTEREST IN**
2 **THE FIRST-CLASS NONSTANDARD SURCHARGE**

3 This testimony is presented on behalf of four intervenors: Nashua
4 Photo Inc. ("Nashua"), which does business as York Photo Labs, District
5 Photo Inc. ("District") which does business as Clark Color Lab, Mystic Color
6 Lab ("Mystic"), and Seattle FilmWorks, Inc. ("Seattle"), collectively referred
7 to as "NDMS."¹ Each firm is a through-the-mail film processor which
8 receives exposed film through the mail, and uses the Postal Service to return
9 developed film and prints to its customers.

10 **Overview of the Film Processing Industry**

11 Collectively, through-the-mail film processors account for
12 approximately 6 percent of the domestic film processing market. The
13 remaining 94 percent of the market is divided among a large number of local,
14 regional and national (*e.g.*, Eastman Kodak, through Qualex, Inc., and Fuji
15 Photo Film, through Fuji Trucolor Inc.) film processing companies that rely
16 on the general public taking its film to a drop-off location and then returning
17 to the drop-off location to pick up the finished prints. In some localities,

¹ Although not an intervenor herein, another through-the-mail film processor, Skrudland Photo Inc., has joined with and supports the position of NDMS.

1 competitors do on-site developing and printing, and offer turn-around times
2 as short as one hour.

3 Turn-around time and service are critical considerations in the direct
4 mail photofinishing business. All four companies operate their respective
5 processing plants up to 24 hours a day, seven days a week, as demand
6 warrants. Their goal is to have finished pictures back into the mail within 24
7 hours after customers' film arrives at the plant.

8 Nashua, District, Mystic, and Seattle compete vigorously with each
9 other, but they compete even more with the multitude of local, regional and
10 national film processors described above.

11 **Mailing Practices of Nashua, District, Mystic, and Seattle**

12 Unexposed rolls of 35mm film are supplied in light-proof cartridges
13 placed inside plastic canisters. When mailing exposed rolls of film, some
14 customers drop the cartridge containing exposed film directly into an
15 envelope, while others place the cartridge back in the plastic canister before
16 mailing. When a single cartridge of 35mm film is returned without the
17 canister, it usually weighs less than one ounce and is therefore subject to the
18 First-Class nonstandard surcharge. When the plastic canister is used, the
19 package weighs more than one ounce and is therefore subject to the rate for
20 two-ounce First-Class Mail. Envelopes sent to NDMS that contain a
21 cartridge of film and weigh less than one ounce constitute a significant

1 portion (perhaps as much as one-fourth) of the 24.9 million nonstandard
2 single-piece First-Class parcels that weighed less than one ounce in 1996.

3 Mystic and Seattle supply all their customers and prospects
4 exclusively with specially-designed business reply envelopes ("BREs") to be
5 used when placing an order. All BREs supplied by Mystic and Seattle are
6 returned directly to each firm at their respective plants. On all incoming
7 BRE mail, Mystic and Seattle thus pay all applicable First-Class postage,
8 including the First-Class nonstandard surcharge.

9 Nashua and District receive both BREs and reply envelopes with
10 postage prepaid by the customer. When customers use BREs, Nashua and
11 District pay all applicable First-Class postage, including the First-Class
12 nonstandard surcharge. For single rolls of film without canisters which are
13 under one ounce, when reply envelopes are prepaid by customers, they are
14 supposed to include the surcharge. Many customers overpay, by putting two
15 32-cent stamps or a 32-cent and 23-cent stamp on the envelope. Other
16 customers underpay, by putting only one 32-cent stamp on the envelope. In
17 the former situation, the Postal Service retains the overpayment; in the latter
18 situation, the Postal Service collects the nonstandard surcharge from Nashua
19 or District as postage due.

20 In this docket, the Postal Service proposes to increase the rate for the
21 first ounce of First-Class Mail from 32 to 33 cents, or by 3.1 percent. At the
22 same time, the Postal Service proposes to increase the nonstandard

1 surcharge by 5 cents, from 11 to 16 cents, or by **45 percent**. In the context of
2 an omnibus rate case that calls for an overall rate increase of **4.5 percent**, a
3 **45 percent** increase is a ten-fold increase over the systemwide average and
4 can only be described as creating enormous "rate shock."²

² The magnitude of this 45 percent increase is exceeded only by the increases of up to 55.6 percent proposed by the Postal Service for Standard A parcels, and the proposed increases for registered mail. Witness Moeller, in his response to NAA/USPS-T36-4 (Tr. 6/2777), stated: "If DSCF-entered minimum-per-piece 3/5-digit residual shape is considered a separate rate category, then the proposed increase for this category is the highest at 55.6 percent." The fact that NDMS are heavy users of **both** First-Class nonstandard mail and DSCF-entered Standard A parcels makes the rate shock on these mailers even worse.

1 **III. THE BASIS FOR THE NONSTANDARD SURCHARGE**
2 **NEEDS TO BE RE-EXAMINED**

3 **The 1973 Decision to Implement a Shell Classification**
4 **for a Surcharge on Nonstandard First-Class Mail**

5 **Shell classification.** In Docket No. MC73-1, the Commission
6 recommended that a nonstandard surcharge be established for First-Class,
7 Airmail and third-class single piece mail, to be implemented two years
8 following the date the *Opinion and Recommended Decision* was issued (April
9 15, 1976).³ The Commission also recommended that "the structure and
10 amount or amounts of any surcharge shall be determined later following a
11 rate request made pursuant to 39 U.S.C. §3622."

12 **Definition of nonstandard mail.** Nonstandard mailpieces were
13 defined as having any:

- 14 (a) height-to-length ratio outside 1:1.3 and 1:2.5, inclusive, or
15 (b) height exceeding 6.125 inches, or
16 (c) length exceeding 11.5 inches, or
17 (d) thickness exceeding 0.25 inches.

³ *Op. & Rec. Dec.*, Docket No. MC73-1, pp. 25-29.

1 Within First-Class and Airmail, the surcharge was applied to nonstandard
 2 letters, flats, and parcels under one ounce.⁴ The Commission noted that
 3 whenever mail in any of these categories exceeds the first weight step,
 4 revenues are sufficient to cover extra costs.⁵

5 **Machinability considerations.** Looking toward the future, the
 6 Commission determined that "mechanization requires that some definition of
 7 maximum size be specified **for purpose of machine design and**
 8 **procurement.**" *Op. & Rec. Decs.*, Docket No. MC73-1, p. 26 (emphasis
 9 added). The Commission also noted that "mail that is too small or flimsy
 10 tends to jam the mail processing machines and damage other mail.⁶ Oversize
 11 pieces...can be handled without detriment to machines or other mail because
 12 they can be culled from the mailstream, but the cost of handling is greater."
 13 *Id.*, p. 25, n.1. The surcharge was intended to encourage use of standard size

⁴ The definition of nonstandard First-Class Mail has not changed; see response of witness Fronk to NDMS/USPS-T32-22 (Tr. 4/1503).

⁵ The Commission has recognized in past dockets that the rate charged for incremental ounces of First-Class Mail exceeds a reasonable estimate of the incremental cost caused by additional weight of mail pieces. *See, inter alia, Ops. & Rec. Decs.*, Docket No. R94-1, para. 5030 and Docket No. R80-1, para. 658.

⁶ Of course, the Postal Service has addressed the concern of mailpieces that are too small by establishing minimum dimensions for mailpieces (0.007" thick, DMM C010.1.3) and more particularly, for letters (not less than 3.5" high or 5" long, DMM C010.1.2, or not less than 0.009" thick for letters more than 4-1/4" high or 6" long, or both, DMM C810.2.1.c.(2)). Failure to meet these minimum standards makes the mailpiece **nonmailable**. The Postal Service has also addressed concerns of flimsiness by establishing minimum standards for packaging (DMM C010.2.0) and containers (DMM C010.3.0).

1 mailpieces, and was expected to reduce postal costs and/or increase postal
2 revenues.

3 **Establishment of Rates for the Surcharge⁷**

4 **Initial rate.** In Docket No. R78-1 (*Opinion & Recommended Decision*
5 *on a Surcharge for Nonstandard Mail*), the Commission rejected a Postal
6 Service proposal to establish a nonstandard surcharge of 13 cents, instead
7 recommending a nonstandard surcharge of 7 cents.

8 **Subsequent rates.** Since Docket No. R78-1, the Postal Service has
9 updated the study that purports to provide the cost basis for the nonstandard
10 surcharge. A series of incremental increases have resulted in the current
11 single piece rate of 11 cents. In Docket No. R87-1, a reduced surcharge of 5
12 cents per piece was implemented for **presorted** First-Class Mail.

13 **The Nonstandard Surcharge Needs Critical Re-examination**

14 **Advances in automation and mechanization.** The surcharge
15 represents an early de-averaging of rates within single piece First-Class
16 Mail. Since the surcharge was first imposed, however, a comprehensive
17 review of the general rationale and the basis for the surcharge has not been
18 undertaken. There are good reasons to do so. For example, new sorting

⁷ Throughout this testimony, references to "the surcharge" should be interpreted to refer only to the existing surcharge on nonstandard First-Class Mail.

1 machines, of the type which the Commission anticipated in its Docket No.
2 R78-1 *Opinion and Recommended Decision* (and some perhaps even more
3 advanced than any contemplated by the Commission), have been widely
4 deployed, without any corresponding study by the Postal Service of whether
5 or how nonstandard mailpieces are processed on them.

6 The latest equipment for processing letters includes the Advanced
7 Facer Canceler System ("AFCS"); optical character readers ("OCRs") that
8 read typed addresses, print barcodes and sort letters; a variety of barcode
9 sorters ("BCSs"), including some that can sort mail to a carrier's walk
10 sequence; and remote video equipment for encoding letters that cannot be
11 read on an OCR. Whether nonstandard pieces, such as square letters, can be
12 processed efficiently on currently installed equipment clearly needs review.

13 The Postal Service has not submitted any evidence as to the processing
14 of nonstandard mailpieces. As an experiment, I personally purchased 10
15 Christmas cards whose envelopes measured exactly 5" square (clearly
16 nonstandard with a 1.0 aspect ratio), placed a 32-cent stamp on each, and
17 had them mailed to me from various locations in New York City and Chicago.
18 Of these, nine were received⁸ with cancellation and barcodes, which

⁸ The cards are contained in Library Reference LR-NDMS-1. Nine were to have been mailed between November 24 and December 2; one was mailed on December 18. One was never received, but I have been unable to confirm that it was actually mailed.

(continued...)

1 evidenced machine processing.⁹ One envelope was torn along the top edge.
 2 This was the only envelope which may have offered evidence of
 3 **malprocessing**. (None were marked postage due, either.) On the basis of
 4 this small sample, witness Daniel cannot be right when she states that "they
 5 [nonstandard letters] would all be manually sorted."¹⁰ (Emphasis added.) If
 6 nothing else, this small-scale experiment shows the need to review the
 7 nonstandard surcharge in terms of existing automation and mechanization
 8 capabilities.

9 Specifications for pieces that can be sorted on the FSM 1000 indicate
 10 that flats under one ounce ("flimsies") are well within its limitations.¹¹ The
 11 average weight of a flat subject to the First-Class nonstandard surcharge is

⁸(...continued)

The library reference also includes two Christmas card envelopes, received at my office, which were not part of the experiment, both of which were machine processed, and neither of which were presented with a request for additional postage. One card, 5 9/16" square, was mailed from Washington, D.C. The other card, 6 7/16" x 6 11/16" (an aspect ratio of 1.04), was mailed from Hong Kong.

⁹ Despite evidence to the contrary, the responses of witness Moden to NDMS/USPS-T4-17-18 (Tr. 11/5816-17) indicate that nonstandard pieces are incompatible with the Advanced Facer Canceler System.

¹⁰ Tr. 14/7471, l. 4.

¹¹ LR-H-169, p. 1 and Postal Service response to NDMS/USPS-T26-3, 4 and 10 (Tr. 19-B/8930-31, 8937-38). The last-cited interrogatory states that "[q]ualitatively, virtually all mail that is within the specifications of the FSM 1000 is processed successfully." The preceding statement conflicts with witness Moden's response to NDMS/USPS-T32-18(b) (Tr. 11/5825) which says that many flats under one ounce "have difficulty meeting the other machinability requirements such as rigidity." Of course, there are no rigidity requirements for First-Class flats other than for those entered at the automation rate.

0.8 ounces.¹² Even flats under one-tenth of one ounce fell within the specifications for the FSM 1000 used in the 1992 Albany, New York test. The production model FSM 1000 currently being deployed (100 were deployed in FY 1997, and an additional 240 are scheduled for deployment in FY 1998)¹³ can process flats weighing 0.32 ounces.

All known standard size flat envelopes appear to be well within the weight specifications of the production FSM 1000. By way of experiment, five typical flat-sized envelopes available for sale at Office Depot, Staples, and Kinko's Copies in McLean, Virginia were purchased. Using a Pitney-Bowes Model A500 digital scale, which rounds to tenths of an ounce, the empty envelopes were weighed, and no standard off-the-shelf envelope weighed less than the FSM 1000's 0.32 ounce minimum. The measurements and weights for the five envelopes appear in the following chart:

Envelope	Measurements	Empty Weight
Quality Park Tyvek	9.5" x 12.5"	0.4 ounces
Westvaco Grip-Seal	9" x 12"	0.6 ounces
DuPont Tyvek	9" x 12"	0.5 ounces
Manila Clasp	9" x 12"	0.4 ounces
Catalog Mailer	6.5" x 9.5"	0.4 ounces

¹² Response of Postal Service to NDMS/USPS-ST43-16(c) (Tr. 19-B/8897).

¹³ Response of witness Moden to DMA/USPS-T4-89 (Tr. 11/5759).

1 (These envelopes are filed as LR-NDMS-2.)

2 Yet within the context of the nonstandard surcharge, no studies or
3 analyses have been conducted by the Postal Service concerning the effect of
4 the ongoing mechanization program on the definition of First-Class
5 nonstandard flats.¹⁴ In fact, the FSM 881 has no stated minimum weight
6 specifications. Also, while there are various tested malprocess rates for both
7 the FSM 881 and the FSM 1000 for nonstandard pieces, no evidence exists
8 that the malprocessed pieces were flimsies.¹⁵ No study of flimsies was ever
9 conducted.¹⁶ The questions of whether existing automation equipment can
10 handle nonstandard letters and whether mechanized equipment can handle
11 flimsies need careful examination. Moreover, technology is not static: the
12 Postal Service has stated that "New Design Flat Sorting Machines are

¹⁴ See Postal Service response to NDMS/USPS-T32-28 (Tr. 19-B/8956). The question of what can and cannot be handled on Postal Service mail processing equipment needs to be revisited periodically. Apart from incremental improvements in existing automated equipment, the opportunity to adapt entirely new technologies also exists. The introduction of robots is spreading rapidly in industries that have a high proportion of labor-intensive handling tasks involving odd-shaped workpieces (e.g., the automobile industry), preparing the ground for robots in postal processing, where no reason exists to anticipate a new order of difficulties.

¹⁵ See Postal Service response to NDMS/USPS-T26-4(c) (Tr. 19-B/8931). See also Tr. 18/8239, ll. 8-12.

¹⁶ See Postal Service response to NDMS/USPS-T26-4(d) (Tr. 19-B/8931). See also Tr. 18/8239, l. 17, and Postal Service response to NDMS/USPS-T32-9 (Tr. 14/7406).

1 planned for deployment by the end of FY 1999.”¹⁷ Even some parcels can be
2 handled by the FSM 1000, which can handle mailpieces as thick as 1.25”.

3 **Incentives to mailers.** It is generally understood that prices send
4 signals to consumers. In this context, the surcharge may give mailers a
5 signal that can be viewed as some sort of incentive.

6 In order for the surcharge to constitute an effective signal, mailers
7 must first know that the surcharge exists. In this regard, it is worth noting
8 that the Postal Service makes little effort — and no special effort — to
9 publicize the existence of the surcharge,¹⁸ and it has no documentation
10 evidencing underpayment or overpayment of the nonstandard surcharge.¹⁹
11 The Postal Service does not even sell an 11-cent stamp (the current amount
12 of the surcharge).²⁰

13 To the extent that the general public is aware of the surcharge, the
14 incentive effects are unclear. Parcel mailers, for example, generally cannot
15 convert their mailpieces to a flat or letter shape. And witness Fronk denies

¹⁷ See response of witness Moden to NDMS/USPS-T4-19 (Tr. 11/5818-19).

¹⁸ Responses of Postal Service to NDMS/USPS-T32-43 (Tr. 19-B/8965) and
OCA/USPS-T32-8 (Tr. 19-D/9333).

¹⁹ Response of Postal Service to OCA/USPS-T32-15 (Tr. 19-D/9340).

²⁰ Response of witness Fronk to OCA/USPS-T32-47 (Tr. 4/1659-60).

1 any intent to create an incentive that would convert pieces of nonstandard
2 shape to pieces of standard shape.²¹

3 **Inconsistency of principles.** More generally, no consistently-
4 applied principles — based either on cost or volume — have emerged over the
5 past 20 years to support continued de-averaging of single piece First-Class
6 rates, either by discounts or surcharges. The special attention given
7 nonstandard one-ounce-or-less mailpieces leaves the impression of
8 arbitrariness and unfairness.²² In contrast to the Postal Service's labored
9 attempts to justify this surcharge — which affects less than 1 percent of
10 First-Class Mail — the huge disproportion between rates and attributable
11 costs for First-Class pieces weighing more than one ounce has been allowed
12 to continue as an integral part of the rate structure, with no apparent
13 concern for the lack of cost-based justification.

²¹ Response of witness Fronk to NDMS/USPS-T32-25 (Tr. 4/1504-05).

²² To the extent the Postal Service has any consistently applied "principle," it would appear to be "take the money and run." In terms of rate design, this translates into the (i) abolition of discounts, and (ii) preservation and expansion of surcharges.

IV. NONSTANDARD FIRST-CLASS VOLUMES
AND REVENUES ARE MINIMAL

Nonstandard Volume and Revenue in 1996

Volume. The 1996 volume of nonstandard First-Class Mail was estimated to be 383 million pieces.²³ The vast majority, 326 million, or 85 percent, consists of single piece mail sent by the general mailing public. The other 57 million pieces were mailed at presort rates. See Table 1.

Revenues. The nonstandard surcharge was estimated to have raised approximately \$35 million in 1996, of which presort and carrier route nonstandard pieces accounted for just under \$3 million. The Postal Service estimates that only 90.4 percent of nonstandard single piece mail pays the surcharge. This number may be very optimistic based on my sample mailing

²³ See response of Postal Service to NDMS/USPS-T32-29 (Tr. 14/7415). However, responses of Postal Service to NDMS/USPS-2 (Tr. 14/7371-72) and NDMS/USPS-T32-47 (Tr. 19-B/8970-72) provided dramatically different estimates of nonstandard parcels and flats, respectively, as well as compliance factors. The volume of nonstandard First-Class Mail is so small that the Postal Service apparently does not have reliable data. The Postal Service concedes that the lack of quality data may arise from the fact that many clerks do not recognize a nonstandard piece when they see one. Such inconsistency or inability to identify nonstandard pieces may also explain how the share of nonstandard letter volume dropped from 58 percent to 19 percent in the Postal Service's analysis. See Tr. 14/7429, ll. 14-18. See also Tr. 14/7467, ll. 8-9: "If data collectors aren't recognizing letter pieces as nonstandard, I have no way of knowing that." Indeed, if data collectors do not recognize nonstandard pieces, clerks are not likely to either, and most nonstandard mail could be expected to be processed along with other First-Class Mail at no additional cost.

1 of 10 pieces where none paid the surcharge, and the fact that even trained
2 data collecting personnel do not recognize these pieces.²⁴

²⁴ The issue of enforcement was addressed when the surcharge was first imposed in Docket No. R78-1. The Commission decided that enforcement was not feasible in a cost-effective manner. Enforcement costs estimated at \$13 million were expected to generate only \$4.3 million in additional revenues; thus, spending on enforcement was not deemed to be an exercise in "prudent management."

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Table 1

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Volume and Estimated Revenue
From Nonstandard First-Class Mail
BY 1996

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	Volume (millions)					Estimated Revenue
	<u>Letters</u>	<u>Flats</u>	<u>Parcels</u>	<u>Total</u>	<u>Surcharge</u>	(000)
	(1)	(2)	(3)	(4)	(5)	(6)
Single Piece	62.7	238.0	24.9	325.6	\$0.11	\$35,816
Compliance Factor						<u>x .904</u>
Net revenue from						
single piece surcharge						\$32,378
Presort	9.1	38.4	2.1	49.6	0.05	2,480
Carrier Route	<u>1.8</u>	<u>6.0</u>	<u>0.2</u>	<u>8.0</u>	0.05	<u>400</u>
TOTAL	73.6	282.4	27.2	383.2		\$35,258

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Source: Columns 1-4 and compliance factor from NDMS/USPS-T32-29 (Tr. 14/7415).

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Note: Nonletters ceased to be eligible for Carrier Route rates during BY 1996, following implementation of the rate and classification changes of Docket No. MC95-1 on July 1, 1996.

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Nonstandard Volume in Perspective

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Single piece nonstandard mail. The 326 million pieces of

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nonstandard First-Class single piece mail represented only 0.60 percent of all

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First-Class single piece mail (see Table 2). In 1996, revenues from the

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nonstandard surcharge represented only 0.15 percent of First-Class single

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piece revenue. For all First-Class Mail, the \$35.3 million in revenue was

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only 0.11 percent of total revenues of \$31.9 billion.

1 **Presort nonstandard mail.** The 11 million First-Class nonstandard
2 3/5-digit **presort** pieces mailed in 1996 constituted only 0.14 percent of all
3 First-Class 3/5-digit **presort** volume (carrier route included), and **carrier**
4 **route** nonstandard pieces were 0.28 percent of all **carrier route** pieces (*see*
5 Table 2). Within presort mail, revenues from the nonstandard surcharge
6 represented only 0.03 percent of total revenues.

7 **Volume of presort First-Class Mail.** In Docket No. R77-1, presort
8 categories for 3/5-digit and carrier route First-Class Mail were first
9 introduced. These two rate categories also represent a de-averaging of costs
10 and rates. They constitute 38.8 and 3.1 percent, respectively, of total First-
11 Class Mail volume (*see* Table 2). It seems eminently sensible to recognize
12 such a substantial percentage as a separate rate category, especially when
13 the percentage represents tens of billions of pieces of mail. The 42 percent of
14 total presort volume contrasts sharply with nonstandard volume, which is
15 well under 1 percent.

16 **Heavy-weight presort First-Class Mail.** Some 300 million pieces of
17 heavy-weight (over two ounces) First-Class Mail currently receive a presort
18 discount of 4.6 cents per piece. Witness Fronk proposes to eliminate this
19 First-Class rate category on grounds that (i) the volume is not sufficient to

1 warrant separate treatment, and (ii) simplification of the rate structure
2 would be preferable.²⁵

3 Witness Fronk's analysis of the heavy-weight presort discount is
4 probably correct. Separate rate classes for segments that constitute small
5 fractions of 1 percent of First-Class Mail do not honor the Postal
6 Reorganization Act's mandate of simplicity.²⁶ The comparable volume of
7 nonstandard First-Class Mail likewise argues for abandonment of that
8 surcharge.

²⁵ USPS-T-32, p. 25, and Tr. 4/1624, l. 15 to 4/1625, l. 5.

²⁶ The "simplicity of structure" mandate merits the greatest force when applied to First-Class single piece mail, which is perhaps the mail product most heavily used by the least sophisticated mailers.

Table 2

Nonstandard Share of First-Class Mail

A. BY 1996 VOLUME

		Total Pieces (million)	Distribution (percent)	Non- Standard (million)	Non- Standard Share (percent)
9	Single Piece	54,150.8	58.1%	325.6	0.60%
10	3/5-Digit Presort	36,213.6	38.8	49.6	0.14
11	Carrier Route	<u>2,843.6</u>	<u>3.1</u>	<u>8.0</u>	0.28
12	TOTAL	93,208.0	100.0%	383.2	0.41%

B. BY 1996 REVENUES

		Total (million)	Distribution (percent)	Non- Standard (million)	Non- Standard Share (percent)
19	Single Piece	\$21,194.1	66.2%	\$32.4	0.15%
20	3/5-Digit Presort	10,050.3	31.4	2.5	0.03
21	Carrier Route	<u>754.9</u>	<u>2.4</u>	<u>0.4</u>	0.05
22	TOTAL	\$31,999.3	100.0%	\$35.3	0.11%

Note: Nonletters ceased to be eligible for Carrier Route rates during BY 1996, following implementation of the rate and classification changes of Docket No. MC95-1 on July 1, 1996.

**V. COST DATA SUPPORTING THE FIRST-CLASS
NONSTANDARD SURCHARGE ARE NOT CREDIBLE**

**Postal Rate Commission's Critique of
Foundations of Nonstandard Surcharge**

In Docket No. R78-1, which established the original nonstandard surcharge rates, the Postal Rate Commission noted that the data and assumptions on which the entire nonstandard surcharge rate structure then rested (and continues to rest even today) are:

distorted by the inability to exclude costs pertaining to First-Class Mail over one ounce which is not subjected to the surcharge. [*Op. & Rec. Dec.*, p. 26, continuation of n. 1 from p. 25.]

Yet, over the past two decades the Postal Service has undertaken no studies to remedy this serious distortion identified by the Commission. The Postal Service has simply updated the defective data, with all their shortcomings, aided by mailer inattention, using the flawed analysis and results again and again as the basis for proposed increases, including the current one.²⁷

Witness Daniel, in her late-filed supplemental testimony, USPS-ST-43, presenting the Postal Service's latest updates of additional mail

²⁷ Only some of the defective cost data have been updated on a periodic basis. Until the present docket, the Postal Service made no effort to update data on the obviously stale volume shares by shape of nonstandard mail, or even disclose that it was stale in its presentations to the Commission.

1 processing costs associated with nonstandard First-Class pieces, makes the
2 following candid admission:

3 One limitation of the analysis presented here is our inability
4 to determine the cost differences of just one-ounce
5 nonstandard pieces. The mail flow model presented in
6 Exhibit USPS-43B can only be used to determine the cost of an
7 average weight letter. Inputs are not available to determine
8 costs by specific ounce increments. Whereas it might be possible
9 to estimate the average mail processing cost of a one-ounce
10 letter, flat, or parcel using the methodology presented in USPS
11 LR-H-106, it is not possible to determine the cost of processing a
12 one-ounce letter-shaped nonstandard piece. [USPS-ST-43, pp.
13 2-3, emphasis added.]

14 For reasons stated by witness Daniel, for cost estimation purposes the
15 missing data are replaced by “proxies,” or substitute variables that purport to
16 represent the variables for which they stand. The key issue to be reviewed
17 here is the degree of distortion introduced into the cost estimates of
18 nonstandard pieces by the proxies used, which the Postal Service states are
19 the only available proxies.

20 Distortion of Cost Estimates by the Proxies Used

21 Postal Service data used as proxies to support the nonstandard
22 surcharge are shown in Table 3.

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Table 3

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Cost Data Used to Support the Nonstandard Surcharge

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	<u>Standard Letters</u>	<u>Proxy For Non- Standard Letters</u>	<u>Proxy For Non- Standard Flats</u>	<u>Proxy For Non- Standard Parcels</u>
Average Cost (cents)	11.74	20.54	32.66	74.57
Average Weight (ounces)	0.5	0.5	3.3	4.3

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Actual Data of Under One-Ounce Mailpieces

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	<u>Non- Standard Letters</u>	<u>Non- Standard Flats</u>	<u>Non- Standard Parcels</u>
Average Weight (ounces)	0.65	0.80	0.49

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Sources: Exhibit USPS-43A

Response of witness Daniel to NDMS/USPS-ST43-11 (Tr. 14/7389).

Response of Postal Service to NDMS/USPS-ST43-16 (Tr. 19-B/8897).

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Letters. The average weight of a First-Class nonstandard letter is 0.65 ounces.²⁸ The average weight of the proxy for nonstandard letters is 0.5 ounces.²⁹ Therefore, in terms of one factor, weight, the average cost for letters may represent a reasonably good proxy.

²⁸ Response of Postal Service to NDMS/USPS-ST43-16 (Tr. 19-B/8897).

²⁹ Response of witness Daniel to NDMS/USPS-ST43-11 (Tr. 14/7389).

1 The proxy fails, however, when the method of processing is considered.
 2 The proxy for nonstandard letters is the cost of letters sorted manually; *i.e.*, it
 3 is **assumed** that **all** nonstandard letters are **always** sorted manually.³⁰ To
 4 the extent that *any* nonstandard letters are in fact sorted on automated
 5 equipment, the proxy overstates the mail processing cost of nonstandard
 6 letters. As noted previously, a simple test mailing ten 5" square cards shows
 7 that nonstandard pieces can be, and in fact are, (i) canceled on the Advanced
 8 Facer Canceler System and (ii) sorted on automation equipment.

9 **Flats and parcels.** For flats and parcels, the average weight of the
 10 proxy is multiples of the average weight for the subset of pieces of less than
 11 one ounce.³¹ Moreover, flats and parcels actually subject to the surcharge
 12 were but a small portion of the flats and parcels studied and relied upon to
 13 support the proposed increase in the First-Class nonstandard surcharge. In

³⁰ Response of witness Daniel to NDMS/USPS-ST43-17 (Tr. 14/7394-95); *see also* Tr. 14/7456, l. 19. No evidence exists that nonstandard First-Class letters cannot be processed on automation equipment or that they are all culled from the automation mail stream. *But see* Tr. 14/7447, ll. 11-17, where witness Daniel speculated that, given two similar letters, one of which was nonstandard, "since these are both so borderline, both may go through or he pull [sic] both of them..." and Tr. 14/7487, l. 21 to 14/7488, l. 2:

Q: You know that anything that doesn't wind up with its tip in the
 shaded area will jam an OCR. Is that your testimony?
 A: No sir, just that there's a greater likelihood that it would.
 Q: And what's your authority for that proposition?
 A: The fact that it was deemed nonmachinable.

³¹ The average weights of First-Class single piece flats and parcels are, respectively, 0.80 ounces and 0.49 ounces. *See* response of Postal Service to NDMS/USPS-ST43-16 (Tr. 19-B/8897).

1 1996, only 7.1 percent of all single piece flats and 8.0 percent of all single
2 piece parcels weighed under one ounce.³²

3 Using average weight First-Class flats and parcels as proxies for
4 under-one-ounce flats and parcels, respectively, is indefensible. Such proxies
5 are wholly inadequate to represent the variables for which they substitute,
6 unless one adopts the position that weight has no effect on cost. The
7 average weight in 1996 for single piece flats was 3.3 ounces, while for single
8 piece parcels it was 4.3 ounces. Thus the proxies were more than 4 and more
9 than 8 times, respectively, the average weight of the pieces that they purport
10 to represent.³³

11 Even more significantly, the additional cost of handling an under-one-
12 ounce nonstandard flat or parcel is almost wholly unrelated to the cost of
13 handling the proxy (i.e., an average weight flat or parcel). This can be
14 readily seen because: (i) the proxy's handling cost would change whenever
15 the distribution and average weight of parcels or flats weighing between 2
16 and 11 ounces changes; (ii) such changes in handling costs of the proxy would

³² Response of Postal Service to NDMS/USPS-T32-8(d) and (e) (revised 9/30/97) (Tr. 19-B/8951).

³³ For presort flats and parcels, the averages are 2.50 and 1.51 ounces, respectively. Response of Postal Service to NDMS/USPS-T32-8(b) (Tr. 19-B/8951). For carrier route flats, the average is 1.54 ounces, as calculated from the Attachment to response of Postal Service to NDMS/USPS-T32-47 (Tr. 19-B/8972); there are too few carrier route parcels to calculate a meaningful average for them. The overall weighted averages for all flats and parcels are 3.22 and 4.25 ounces, respectively, as calculated from the Attachment to response of Postal Service to NDMS/USPS-T32-47.

1 not correlate with or reflect any changes in the cost of handling mailpieces
2 that weigh under one ounce; and (iii) average parcel costs are further
3 distorted by the presence of certain odd shapes (*e.g.*, rolls) and contents (*e.g.*,
4 live chicks) that are quite expensive to handle, are found in the population of
5 the proxy, and are never found in the population of one-ounce-or-less parcels.
6 Accordingly, no functional relationship exists between the handling costs of
7 the proxies and the variables for which they purport to stand. The analysis
8 based on these proxies is totally inadequate to support the Postal Service's
9 existing First-Class nonstandard surcharge, let alone the proposed increase.
10 The Commission's critique in Docket No. R78-1 concerning the distortions
11 introduced into the process of rate making "by the inability to exclude costs
12 pertaining to First-Class Mail over one ounce" remains as applicable and
13 incontrovertible today as it was almost 20 years ago. The above conclusion is
14 valid even though, as mentioned by witness Daniel in her supplemental
15 testimony,³⁴ regarding Docket No. R90-1:

16 the Commission was satisfied with the Nonstandard surcharge
17 Library Reference presented in Docket No. R90-1 upon which
18 the analysis in this docket [No. R97-1] is based. In its Opinion
19 and Recommended Decision, the Commission noted: "It is
20 satisfying to observe that in this case the Service has provided
21 solid information on the comparative costs of standard and
22 nonstandard First-Class pieces."

³⁴ USPS-ST-43, p. 3, ll. 10-16.

1 The preceding quotation may reflect the lack of scrutiny given the
2 surcharge by any intervenor in that docket, and must be viewed in the
3 context of the Commission's own earlier critique, cited above from
4 Docket No. R78-1, which was precisely on target and was never
5 addressed in subsequent Postal Service cost revisions submitted in Docket
6 Nos. R84-1, R94-1, or R97-1 — as well as Docket No. R90-1, cited by witness
7 Daniel. The data in Docket No. R90-1, on which the Commission
8 inexplicably commented favorably, were subject to the same
9 identical distortion that the Commission itself criticized in Docket
10 No. R78-1.³⁵

11 Can Better Data Be Expected Soon?

12 As a final note, the likelihood of obtaining the data required to specify
13 the additional cost of handling an under-one-ounce nonstandard mail piece
14 needs to be addressed. This likelihood appears minimal, because it would
15 require a major reorganization of, as well as supplementation to, existing

³⁵ Moreover, in 1990 only the flawed cost data were updated. Other data on the proportion of nonstandard letters, flats and parcels were taken from a report in the early seventies, using data possibly predating creation of the Postal Service, and by 1990 they were already stale and out of date. See USPS-ST-43, p. 2, ll. 12-13.

1 Postal Service data collection systems and procedures. The IOCS does not
2 collect any information about nonstandard pieces of First-Class Mail.³⁶

3 The required change may not be beyond the realm of possibility, but it
4 would certainly be hard to justify simply for the purpose of constructing
5 credible cost-based rates for less than 1 percent of First-Class Mail volume.³⁷
6 Reluctance of the Postal Service to undertake a major cost study to remedy
7 the existing situation is understandable in light of the expense such a study
8 would entail, together with limited importance of the First-Class
9 nonstandard surcharge within the overall rate structure. Thus, credible cost
10 data to support the First-Class nonstandard surcharge do not exist, nor are
11 they likely to become available any time in the foreseeable future.

³⁶ Response of Postal Service to NDMS/USPS-T32-48 (Tr. 19-B/8973).

³⁷ If the Postal Service wants to achieve First-Class rates that are more cost-based, it should study the broader issue of the relationship between cost and weight for all First-Class Mail.

1 **VI. FIRST-CLASS FLATS AND PARCELS**
2 **ARE PROFITABLE PRODUCTS**

3 In light of the severe problems associated with determining the actual
4 costs incurred by handling nonstandard First-Class Mail, discussed in the
5 preceding section, it is worth noting that First-Class flats and parcels, taken
6 as individual groups, are profitable products that make more than an
7 adequate contribution to covering Postal Service costs — as do, of course,
8 First-Class letters taken as a group.

9 **Available Data on Flats and Parcels**

10 As the Postal Service candidly admits, no reliable estimate exists for
11 the cost of handling First-Class flats and parcels that weigh under one ounce.
12 The only available data are **average** costs for **all** flats and **all** parcels.
13 Although the desired cost data are not available, the data that are available
14 can be used, in conjunction with other data provided by the Postal Service,³⁸
15 to compare revenues and cost for all single piece flats and parcels. Such a
16 comparison is instructive (*see* Table 4).

³⁸ Attachment to response of Postal Service to NDMS/USPS-T32-47 (Tr. 19-B/8972).

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Table 4

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**First-Class Single Piece Flats and Parcels
Revenues, Mail Processing Costs and Volumes
(excluding surcharge)
BY 1996**

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	(1) Flats	(2) Parcels
Revenue (000)	\$3,925,784	\$535,736
Less: mail processing and delivery costs (000)	<u>1,538,926</u>	<u>355,472</u>
Contribution to other costs (000)	<u>\$2,386,860</u>	<u>\$180,264</u>
Volume (000)	4,111,364	449,505
Average contribution/piece	\$0.58	\$0.40
Coverage of mail processing and delivery costs	255.6%	150.7%

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Source: Appendix, Table A-1.

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**Average Revenue of First-Class Single Piece Flats is 58 Cents
Greater Than Mail Processing and Delivery Costs Without Any
Surcharge**

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The revenue data in Table 4 have been computed without the surcharge on pieces under one ounce. As can be seen from column (1) in Table 4, **excluding the surcharge, flats on average generate revenues of 58 cents per piece over mail processing and delivery cost, which is equal to 255 percent.** Each of these figures substantially exceeds the comparable

1 contribution and coverage, respectively, for an average weight, standard-
 2 sized, single piece First-Class letter.³⁹

3 At 23 cents per additional ounce, which is equivalent to \$3.68 per
 4 pound, the fee for extra ounces on flats enables the Postal Service to recoup
 5 handsomely any possible (yet unproven) loss that it may incur on account of
 6 flimsies. If light-weight flats are to be de-averaged in pursuit of rates that
 7 are more cost-based, then fairness and equity (as well as consistency) call for
 8 a corresponding reduction in the extra-ounce rate applicable to heavier-
 9 weight flats (as well as to letters and parcels), which are grossly overcharged
 10 in relation to cost.⁴⁰

11 **Average Revenue of First-Class Single Piece Parcels is 40 Cents**
 12 **Greater Than Mail Processing and Delivery Costs Without Any**
 13 **Surcharge**

14 The situation with respect to parcels is similar, although somewhat
 15 less striking than it is for flats. Without any surcharge, parcels generate
 16 revenues of 40 cents per piece over mail processing and delivery costs,

³⁹ Single piece letters have an average mail processing cost of 11.74 cents (Exhibit USPS-43A) and a delivery cost of 5.00 cents (Exhibit USPS-29C). A single piece letter thus contributes only 15.26 cents to other costs and the coverage of mail processing and delivery cost equals 191 percent.

⁴⁰ A reduction of at least 3 cents, from 23 to 20 cents per additional ounce, which is equivalent to \$3.20 per pound, would be appropriate. By way of comparison, even this reduced pound rate is more than 5 times the pound rate proposed for Standard A Regular.

1 which far exceeds the average comparable revenues from letters. The
2 coverage of mail processing and delivery cost is 151 percent.⁴¹

3 **Minimal Aggregate Effect of Nonstandard Surcharge**

4 Addition of the existing 11-cent surcharge scarcely changes the
5 profitability analysis for flats or parcels. For single piece flats, the
6 contribution per piece increases from 58 cents to 59 cents, while coverage of
7 mail processing and delivery cost increases from 255 to 257 percent. For
8 single piece parcels, the contribution to the other costs increases from 40
9 cents to 41 cents, and coverage of mail processing and delivery cost increases
10 from 151 percent to 152 percent.⁴² Flats and parcels presorted to 3/5 digits
11 and carrier route are also quite profitable (*see* Appendix, Table A-2 for
12 details).

13 In conclusion, flats and parcels are both profitable products that make
14 excellent contributions to Postal Service cost coverage, even without the
15 surcharge. In fact, the surcharge has a negligible effect on the overall
16 profitability of either product; its continuation cannot be defended on
17 grounds of prudent management. Assessing a surcharge on the small

⁴¹ NDMS each receive and pay all postage and fees on a substantial number of First-Class parcels whose weight exceeds one ounce, which are clearly quite profitable for the Postal Service. Growth in the use of disposable cameras is increasing the average weight of parcels received by NDMS.

⁴² *See* Appendix, Table A-1 for details.

1 segment of mailpieces whose revenue is low in comparison to costs, while
2 charging an additional \$3.68 per pound (pro-rated on a per-ounce basis) for
3 heavier pieces which undergo similar mail processing and have similar cost
4 characteristics, simply underscores the arbitrariness of de-averaging tiny
5 segments of these profitable groups without a compelling operational need.

6 Broader issues of fairness and equity in de-averaging decisions play a
7 key role in considering whether to continue the First-Class nonstandard
8 surcharge. These broader issues of de-averaging are discussed in the next
9 section of this testimony.

**VII. THE DE-AVERAGING OF RATES FOR SINGLE PIECE
FIRST-CLASS MAIL HAS NO CONSISTENT, PRINCIPLED BASIS**

Need for Guiding Principles

Cost-driven de-averaging can be applied to distinguish any subsegment of mail whose average processing cost differs significantly from the average processing cost of the segment as a whole, supporting the creation of additional rate categories. Of course, the quest for more cost-based rates can justify any and all de-averaging, however wise or foolish it may be.

The key issue is: under what conditions should rate categories be created and such de-averaging built into the rate structure? De-averaging First-Class Mail should not be undertaken lightly. Once the "de-averaging genie" is out of the bottle in First-Class, legitimate issues directly related to the nonstandard surcharge arise. A few examples follow.

- What are the criteria for de-averaging?
- Should there be separate rates (or a surcharge) for all First-Class flats and parcels?
- Should there be separate rates (or a surcharge) for hand-addressed pieces, or for pieces that are not automation-compatible?
- Should there be a separate rate or discount for local mail that is deposited in the "local mail" slot of a post office and receives final delivery to an addressee from the post office where it is deposited?

- 1 • Should a discount or reduced rate apply to single pieces that are
- 2 fully automatable?
- 3 • Should there be a discount for metered mail?
- 4 • Should there be a discount for single piece “clean” mail, whether
- 5 metered or stamped?

6 **De-Averaging Versus Simplification**

7 It is hard to escape the conclusion that the Postal Service is less than
 8 consistent in its rate-making proposals in this docket; it argues either of two
 9 inconsistent principles, de-averaging or rate simplification, in an *ad hoc*
 10 manner, so long as the result will increase revenue. Thus, while favoring
 11 (without justifying) continued de-averaging with a 45 percent increase in the
 12 First-Class nonstandard surcharge, witness Fronk simultaneously proposes
 13 to simplify the rate structure by eliminating the 4.6 cent per-piece discount
 14 given to some 300 million pieces of presorted heavy-weight (over 2 ounce)
 15 First-Class Mail.⁴³

16 Note that the volume in the **presorted heavy-weight** rate category is
 17 almost the same as the volume of **nonstandard non-presort** pieces, and is
 18 five times the volume of **nonstandard presorted** pieces (see Table 1).⁴⁴

⁴³ See USPS-T-32, p. 25, l. 2; see also Tr. 4/1624, l. 15 to 4/1625, l. 5.

⁴⁴ More exactly, the volume was 344 million pieces, based on the response of Postal Service to NDMS/USPS-T32-47 (Tr. 19-B/8970-72).

1 Strong exception must be taken to such practices. The Postal Service's
2 rate proposals and the resulting *ad hoc* exercises in averaging or de-
3 averaging fly in the face of 39 U.S.C. Section 3622(b)(1), "the establishment
4 of a fair and equitable rate schedule." A sensible approach would be to
5 recognize that a multiplicity of tiny (under 1 percent of total volume) rate
6 categories within First-Class Mail has limited value, and abolish both the
7 surcharge and the discount at this time. If simplicity of structure means only
8 one rate category should be kept, it should be the presorted heavy-weight
9 discount, which is available only to sophisticated presort mailers. Simplicity
10 of structure argues most strongly for elimination of the nonstandard
11 surcharge, which applies to the entire mailing public.

12 **Cost Drivers as a Basis for De-Averaging**

13 If the Commission contemplates continued support for the type of de-
14 averaging represented by the nonstandard surcharge, there are additional
15 cost-drivers which may provide useful bases for de-averaging:

16 **Weight.** Within single piece First-Class Mail, the cost to process,
17 transport and deliver a piece of mail varies widely. One cost driver, weight,
18 has been an integral part of the First-Class rate schedule for as long as

1 anyone can remember. For many years, mailers have paid for each
2 additional ounce.⁴⁵

3 To an important extent, weight has been considered as a proxy for
4 shape. That is, as weight of single piece First-Class Mail increases, the
5 percentage of letters falls sharply, while the percentage of flats and parcels
6 increases. When de-averaging introduces cost drivers other than weight
7 (such as shape, or automatability, or "cleanness," for example) into the rate
8 schedule, the role assigned to existing cost drivers, especially any that
9 currently act as a proxy for the newly introduced variable, need to be
10 reexamined critically.

11 **Automatability.** In recent years, address incompatibility with the
12 latest generation of mail processing equipment has become an increasingly
13 important cost driver. Hand-addressed letters (and fancy fonts now available
14 on computers) that cannot be read by today's OCRs have a higher unit cost.
15 Such letters must be encoded on remote barcoding equipment. If, for any
16 reason, mail cannot be read on remote barcoding equipment, it needs to be
17 manually sorted at an even higher cost than letters that receive remote
18 barcoding.⁴⁶ The cost of sorting letters manually is based on both standard

⁴⁵ In colonial times, before scales were widely available, it was customary to charge for each sheet of paper in a letter or packet, rather than charge by weight as such.

⁴⁶ See response of witness Moden to NDMS/USPS-T32-21 (Tr. 11/5826) for
(continued...)

1 and nonstandard letters. Of all letters that are still sorted manually by the
2 Postal Service, nonstandard letters may represent only a small proportion.⁴⁷

3 Automatability is not static. While the DMM definition of
4 “nonstandard” may not have changed for many years, the capabilities of mail
5 processing technology have changed dramatically. Furthermore, they
6 continue to evolve. Advances in automation could easily undermine one
7 fundamental premise for the surcharge asserted by the Postal Service (but
8 rejected by the Commission) – namely, that all nonstandard letters are
9 always handled manually. As noted previously in this testimony, many
10 nonstandard letters may now be routinely handled as expeditiously (and at
11 the same cost) as standard-sized letters.⁴⁸ Also, flimsies may be processed
12 routinely on the FSM 1000 along with other flats, all at the same cost.
13 Flimsies are clearly within the specifications of the existing FSM 1000, while
14 a New Design Flat Sorting Machine is to be deployed in the near future.

15 To sum up, the nonstandard surcharge has been imposed because the
16 mail to which it applies is believed to have a cost that is considered high in
17 relation both to other mail and to the rate which is charged for such mail in

⁴⁶(...continued)
examples of standard-sized letters subject to manual processing.

⁴⁷ Volumes that are still sorted manually are not known; *see* response of Postal Service to NDMS/USPS-T32-31 (Tr. 19-B/8959).

⁴⁸ LR-NDMS-1 contains some evidence to this effect.

1 the absence of the surcharge. But nonstandard pieces are not the only First-
 2 Class Mail with a unit cost purportedly somewhat higher (or lower) than the
 3 mean, or benchmark. Single piece First-Class rates could be de-averaged
 4 further, perhaps much further, on the basis of a variety of cost drivers.

5 **De-Averaging Versus Balkanization**

6 De-averaging, and the quest for cost-based rates, has merit. De-
 7 averaging on the basis of cost is a hallmark of highly competitive markets.
 8 At the same time, however, it should be kept in mind that (i) the Postal
 9 Service has a statutory monopoly on First-Class Mail; (ii) the one class of
 10 mail that is available to every resident without restriction and that is widely
 11 used by the general mailing public is First-Class Mail; and (iii) simplicity of
 12 rate structure is one specific criterion of rate setting enumerated in 39 U.S.C.
 13 Section 3622(b). Since the Act also mandates that one class of mail sealed
 14 from inspection (a definition of First-Class Mail) have rates that are uniform
 15 throughout the nation, de-averaging of First-Class Mail should be
 16 approached conservatively and should be based on clear and well-
 17 documented reasons.⁴⁹

⁴⁹ 39 U.S.C. §3623(d) requires that there be one class of mail for transmission of letters sealed against inspection, whose rates shall be uniform throughout the country. In a layman's interpretation, uniform rates presumably means, at a minimum, no transportation differential. Whether it also means that rates should be uniform with respect to shape, or automatability, or other cost-driving

(continued...)

1 The Commission should give serious consideration to the advisability
 2 of maintaining any rate category that constitutes well under 1 percent of
 3 volume — and one-tenth of 1 percent of revenue — of First-Class Mail. If the
 4 Commission were to affirm the surcharge, this precedent could be used to
 5 justify almost limitless “balkanization” of First-Class Mail. Moreover, it
 6 could open the door to doing so in a seemingly arbitrary fashion, since any
 7 fine-tuning of costs and rates that may be achieved by reliance on the
 8 nonstandard surcharge contrasts sharply with the enormous disparity that is
 9 known to exist between the cost incurred by additional ounces and the rate
 10 for additional ounces (23 cents per ounce, the equivalent of \$3.68 per pound).

11 **Summary**

12 The Commission needs to develop some well-articulated principles
 13 with respect to de-averaging and the creation of rate categories within First-
 14 Class Mail. Appropriate principles to guide de-averaging decisions within
 15 First-Class Mail might be the following:

- 16 • De-averaging of First-Class Mail segments should be
- 17 undertaken only when:
- 18

⁴⁹(...continued)

characteristics is an interesting question. Strictly speaking, the answer requires a definition or interpretation of “uniform” as it is used in the Act, which is a legal issue beyond the scope of my testimony. I would note, however, that ever since Sir Rowland Hill introduced the first prepaid postage stamp in England, the mailing public has employed — and enjoyed — a rate structure based on simplicity and uniformity.

- 1 • **a substantial proportion of the volume or revenue can**
2 **be de-averaged;**
- 3 • **the cost basis for de-averaging is solid and credible;**
4 **and**
- 5 • **the result achieved will greatly exceed any increase in**
6 **complexity.**
7

VIII. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The First-Class nonstandard surcharge de-averages rates for a trivial percentage of First-Class Mail, both single piece and presort. Its continuance at this time opens the door to almost limitless de-averaging within the one subclass that is widely used by the general public and intended by Congress, as evidenced by 39 U.S.C. §3623(d), to enjoy uniform rates throughout the nation. The additional revenues provided by the surcharge, seen in the context of \$32 billion in total revenues for First-Class Mail, offer a classic example of the concept *de minimis*.

The cost data used to support the surcharge are fatally flawed. Simply put, in its effort to justify an additional \$35 million in revenue from the surcharge, the Postal Service's analysis implicitly assumes that (i) all nonstandard letters are manually processed and (ii) additional weight has absolutely no effect on the cost of First-Class Mail. The first assumption is demonstrably false. See LR-NDMS-1. Of course, if the second assumption is valid, then the Postal Service cannot escape the conclusion that it collects over \$4 billion in revenues from the 23-cent rate on additional ounces of First-Class Mail without any cost justification whatsoever. And if the

1 implicit assumption is not valid, then clearly the cost study used to support
2 the surcharge is fatally flawed and should be ignored.

3 **Primary Recommendation**

4 **For the foregoing reasons, the Commission is urged to**
5 **eliminate the nonstandard surcharge.** Elimination of the surcharge
6 would materially simplify the First-Class rate structure with negligible loss
7 of revenue and, perhaps more importantly, would reduce the arbitrariness of
8 this part of the First-Class rate structure.

9 **Secondary Recommendation**

10 If the Commission does not wish to eliminate the surcharge at this
11 time, then it is urged to reject any increase in the surcharge pending the
12 Postal Service's completion of a complete review of the basis for the
13 surcharge. Any such study should analyze the extent to which letters and
14 flats now classified as nonstandard can be and in fact are being processed,
15 respectively, on automated and mechanized equipment. The study should
16 also address the effect of weight on cost of First-Class Mail, and review all
17 findings in this respect against any surcharge based either on shape, or a
18 combination of shape and weight. The Postal Service should also:

- 19 • calculate malprocessing rates and costs, and incorporate such
20 figures into its calculations;

- 1 • accurately identify costs incurred by the average under-one-
2 ounce nonstandard letter, flat, and parcel; and
- 3 • address the inability of Postal Service personnel to identify such
4 mailpieces correctly.

5 Until such study is complete, the Commission should reduce the
6 nonstandard surcharge by the following means:

- 7 (i) Specifically exclude the deeply flawed proxies consisting of the
8 average costs of handling flats and parcels, respectively, from any role in the
9 computation.
- 10 (ii) Use only reasonably reliable data to compute the extra cost of
11 nonstandard First-Class Mail. Among the proxies used in the Postal
12 Service's supporting calculations, the difference between the average cost of
13 First-Class letters (11.74 cents) and the cost of a manually processed letter
14 (20.54 cents)⁵⁰ is arguably a somewhat reasonable proxy for use with
15 nonstandard pieces, provided the Postal Service demonstrates that all or
16 most nonstandard letters are indeed processed manually.⁵¹ Under this
17 approach, the extra cost is conservatively estimated at no more than 8.80
18 cents.

⁵⁰ USPS-ST-43, Exhibit USPS-43A.

⁵¹ Of course, the use of this proxy in no way addresses the lack of consistency in de-averaging the tiny nonstandard segment while continuing the massive averaging associated with the one-ounce incremental rate.

1 (iii) Apply a much reduced passthrough, preferably of 50 percent, in
2 view of the multiple objections surrounding the justifiability of the
3 surcharge. Fairness and equity would in any event suggest a comparatively
4 low passthrough, consistent with passthroughs on other shape-based cost
5 differences, such as the letter-flat differential applied to Standard A Mail, as
6 well as the Postal Service's proposed parcel surcharge, also on Standard A
7 Mail.⁵² With a 50-percent passthrough, the nonstandard surcharge would be
8 computed at 4.40 cents, which could be rounded either up or down, resulting
9 in a surcharge on the order of four to five cents.

⁵² In Docket R90-1, the Commission recommended rates that recognized 50 percent of the letter/flat differential in third-class regular mail (except in basic, where the passthrough was 62 percent). *Op. & Rec. Dec.*, para. 5941. The corresponding passthrough was approximately 25 percent in nonprofit. *Id.*, para. 5943.

In this docket, the Postal Service proposes no recognition of the letter-flat differential in Basic ECR, while proposing 35 percent passthroughs for the other ECR density tiers. USPS-T-36, p. 27.

1

APPENDIX

2 This appendix consists of two tables, similar in construction. First,
3 using volume data by one-ounce increments, estimated revenues for flats and
4 parcels are computed both without and with the surcharge. Second, total
5 costs are computed from unit cost data. Third, total contribution,
6 contribution per piece, and coverage of mail processing and delivery costs, are
7 computed. The tables contained in this appendix are as follows:

8

Table

9

A-1 First-Class Single Piece Flats and Parcels

10

A-2 First-Class 3/5 Digit Presort Flats and Parcels

Table A-1

First-Class Single Piece Flats and Parcels
Base Year 1996

	Distribution of pieces by weight increment												Revenue Without Surcharge	Plus Surcharge	Revenue With Surcharge
	1	2	3	4	5	6	7	8	9	10	11	Volume			
FLATS															
Pieces (000)	292,120	1,290,925	843,810	522,874	358,457	249,391	179,655	137,469	105,648	75,028	55,987	4,111,364			
Postage/pc. (cents)	32	55	78	101	124	147	170	193	216	239	262				
Revenue (\$, 000)	93,478	710,009	658,172	528,103	444,487	366,605	305,414	265,315	228,200	179,317	146,686		3,925,784	32,133	3,957,918
Average processing cost/piece (cents)													32.43		
Delivery cost (cents)													5.00		
Total cost (\$, 000)													1,538,925		
Total contribution (\$, 000)													2,386,860		2,418,993
Contribution per piece (cents)													58.06		58.84
Coverage of MP+D cost													255.1%		257.2%
PARCELS															
Pieces (000)	36,028	77,273	75,625	56,515	45,204	37,245	31,007	27,622	24,768	20,927	17,290	449,504			
Postage/pc. (cents)	32	55	78	101	124	147	170	193	216	239	262				
Revenue (\$, 000)	11,529	42,500	58,988	57,080	56,053	54,750	52,712	53,310	53,499	50,016	45,300		535,736	3,963	539,700
Average processing cost/piece (cents)													74.08		
Delivery cost (cents)													5.00		
Total cost (\$, 000)													355,472		
Total contribution (\$, 000)													180,264		184,227
Contribution per piece (cents)													40.10		40.98
Coverage of MP+D cost													150.7%		151.8%

Source of pieces by weight increment: Attachment to NDMS/USPS-T32-47 (Tr. 19-B/8970-72).

Source of mail processing and delivery cost: USPS-ST-43 and USPS-29C (revised 10/1/97), respectively.

Table A-2

First-Class 3/5 Digit Presort Flats and Parcels
Base Year 1996

	Distribution of pieces by weight increment												Revenue Without Surcharge	Plus Surcharge	Revenue With Surcharge
	1	2	3	4	5	6	7	8	9	10	11	Volume			
FLATS															
3/5 Flats (000)	27,509	74,082	90,135	31,498	6,387	4,730	2,851	2,230	1,731	1,859	845	243,657			
Postage/pc. (cents)	25.8	48.8	67	90	113	136	159	182	205	228	251				
Revenue (\$, 000)	7,097	36,152	60,390	28,348	7,217	6,433	4,533	4,059	3,549	3,783	2,121		163,682	1,375	165,057
Residual flats (000)	14,305	25,551	19,855	6,089	2,399	2,655	2,044	2,082	1,807	1,527	869	79,183			
Postage/pc. (cents)	27.4	50.4	68.6	91.6	114.6	137.6	160.6	183.6	206.6	229.6	252.6				
Revenue (\$, 000)	3,920	12,878	13,621	5,578	2,749	3,653	3,283	3,823	3,733	3,506	2,195		58,937	715	59,653
TOTAL												322,840	222,619	2,091	224,710
Average processing cost/piece (cents)													20.87		
Delivery cost (cents)													5.00		
Total cost (\$, 000)													83,522		
Total contribution (\$, 000)													139,097		141,188
Contribution per piece (cents)													43.09		43.73
Coverage of MP+D Costs													266.5%		269.0%
PARCELS															
3/5 Parcels (000)	4,870	350	2,657	146	73	136	78	20	23	10	18	8,381			
Postage/pc. (cents)	25.8	48.8	67	90	113	136	159	182	205	228	251				
Revenue (\$, 000)	1,256	171	1,780	131	82	185	124	36	47	23	45		3,882	244	4,125
Residual parcels (000)	266	46	194	48	55	28	63	11	2	15	33	761			
Postage/pc. (cents)	27.4	50.4	68.6	91.6	114.6	137.6	160.6	183.6	206.6	229.6	252.6				
Revenue (\$, 000)	73	23	133	44	63	39	101	20	4	34	83		618	13	631
TOTAL												9,142	4,500	257	4,757
Average processing cost/piece (cents)													21.96		
Delivery cost (cents)													5.00		
Total cost (\$, 000)													2,465		
Total contribution (\$, 000)													2,035		2,292
Contribution per piece (cents)													22.26		25.07
Coverage of MP+D Costs													182.6%		193.0%

Source of pieces by weight increment: Attachment to NDMS/USPS-T32-47 (Tr. 19-B/8970-72).

Sources of mail processing and delivery cost: USPS-ST-43 and USPS-29C (revised 10/1/97), respectively.

Revenue calculations do not reflect rate increases implemented in fourth quarter of BY 1996 (on July 1, 1996) pursuant to Docket No. MC95-1.

1 CHAIRMAN GLEIMAN: Dr. Haldi, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Well, if you would change the plural
9 to a singular, the answer is yes, sir.

10 CHAIRMAN GLEIMAN: Would the question?

11 THE WITNESS: The question; yes.

12 CHAIRMAN GLEIMAN: That being the case, I'm going
13 to provide two copies of the question which constitutes the
14 designated written cross-examination of Witness Haldi to the
15 reporter and direct that it be accepted into evidence and
16 transcribed into the record at this point.

17 [Designation of Written
18 Cross-Examination of Dr. John
19 Haldi, NDMS-T-1, was received into
20 evidence and transcribed into the
21 record.]

22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
WITNESS JOHN HALDI
(NDMS-T1)

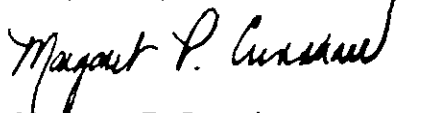
Party

United States Postal Service

Interrogatories

USPS/NDMS-T1-3

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a long, sweeping line extending from the end of the name.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
NASHUA PHOTO INC., DISTRICT PHOTO INC., MYSTIC
COLOR LAB, AND SEATTLE FILMWORKS, INC.
WITNESS JOHN HALDI (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/NDMS-T1-3

Designating Parties:

USPS

Response of Dr. John Haldi to USPS/NDMS-T1-3
Page 1 of 1

USPS/NDMS-T1-3

In Table 4 of NDMS-T-1 (page 32), you present a percentage, "coverage of mail processing and delivery costs," for flats and parcels separately.

- (a) Please confirm that the delivery cost used to compute the coverage number for flats is not the delivery cost for flats, but rather is the average delivery cost for letters, flats, and parcels combined.
- (b) Please confirm that the delivery cost used to compute the coverage number for parcels is not the delivery cost for parcels, but rather is the average delivery cost for letters, flats, and parcels combined.

Response:

- (a) and (b) It is the unit delivery cost shown in USPS-29C (revised 10/1/97) as cited in my Appendix Table A-1, as referenced in Table 4.

1 CHAIRMAN GLEIMAN: The Post Office has indicated
2 it wishes to cross-examine Witness Haldi. Does any other
3 party have cross-examination for this witness?

4 [No response.]

5 CHAIRMAN GLEIMAN: If not, then, Mr. Tidwell.

6 CROSS-EXAMINATION

7 BY MR. TIDWELL:

8 Q Good afternoon, Dr. Haldi. Michael Tidwell on
9 behalf of the U.S. Postal Service.

10 In your testimony you talk about approximately ten
11 nonstandard First Class mail greeting cards which you caused
12 to be mailed to your address without the nonstandard
13 surcharge affixed. Am I correct in understanding that what
14 made each of these letters nonstandard is that each was
15 square in shape and therefore had a low aspect ratio?

16 A Yes, sir.

17 Q And do you know whether a poor aspect ratio is the
18 most significant factor in First Class mail letters being
19 nonstandard?

20 A I have not seen any data on that.

21 Q And I take it then you haven't seen any data which
22 would indicate to you that among total nonstandard First
23 Class mail pieces what percentage constitute
24 low-aspect-ratio letters.

25 A Well, it's either -- if you're confining the

1 question to letters, the aspect ratio is either too low or
2 too large, and too large would be like a very long, thin --
3 long rectangular, but not too high rectangular piece, and
4 I've not seen any data that breaks down as between those
5 which fail the aspect ratio by virtue of being below it and
6 those which fail the aspect-ratio test by virtue of being
7 above it.

8 In fact my impression has been throughout that the
9 data with respect to nonstandard mail is rather thin.

10 Q Let's take a look at page 7 of your testimony.
11 Actually, there is a page that begins at the bottom of page
12 6 and then carries over to page 7. And in that sentence,
13 you compare the proposed 45 percent increase in the single
14 piece non-standard surcharge with an overall system-wide
15 average rate increase of 4.5 percent.

16 Now, a mailer pays a non-standard surcharge in
17 addition to the first ounce of postage, is that correct?

18 A That is my understanding, yes.

19 Q And it is your understanding -- is it your
20 understanding that the Postal Service is proposing a one
21 cent increase in the single piece First Class mail rate from
22 32 cents to 33 cents?

23 A That is my understanding, yes.

24 Q And so under the Postal Service's proposal in this
25 case, the postage a mailer would pay for a single piece

1 non-standard First Class piece would increase -- the postage
2 that the mailer would pay would increase from the current
3 postage of 43 cents, which is 32 plus 11, to 49 cents, which
4 would be 33 plus 16, is that correct?

5 A That would be correct.

6 Q And that if one were to divide the proposed
7 cumulative 6 cent increase by the current 43 cent postage
8 total, you would end up with a 14 percent cumulative rate
9 increase?

10 A That's --

11 Q Subject to check.

12 A That's my arithmetic, yes.

13 Q Okay. I would like you to take a look at page 16
14 of your testimony and, in particular, footnote 22 and the
15 text associated with it. In the last sentence in footnote
16 22, you refer to the abolition of discounts during the last
17 20 years. Now, I take it there you are talking about
18 discounts where at some point embodied in the domestic mail
19 classification schedule and then later abolished?

20 A I am talking -- yes, in general, yes, but in
21 particular I am talking about First Class discounts, or
22 discounts within the First Class mail.

23 Q And which ones in particular are you referring to?

24 A Well, you are proposing to eliminate the discount
25 for presorted heavy weight flats in this case.

1 Q And that's the only one you are referring to?

2 A That was the one I had in mind in particular.

3 Q Okay. Let me direct your attention to page 5 of
4 your testimony and, particularly, I think there is a
5 paragraph that begins around line 11. And in that paragraph
6 you give a general description of some of the non-standard
7 size business reply mail pieces received by Nashua, District,
8 Mystic and Seattle, and at the top of page 6, you estimate
9 that perhaps as much as one-quarter of the 24.9 million or
10 so non-standard single piece First Class mail parcels
11 processed by the Postal Service are received by Nashua et
12 al.

13 When you use parcels in this context, are you
14 distinguishing parcels from letters and flats?

15 A In this context, yes. I am referring to -- to
16 borrow the terminology from Third Class, non-standard,
17 non-letter, non-flats.

18 Q In coming up with this estimate, did you consider
19 developing an estimate of the total number of non-standard
20 letters or flats processed by the Postal Service which are
21 received by NDMS?

22 A Could you repeat that again?

23 Q Well, you have provided an estimate that perhaps
24 as much as quarter of the 25 million or so non-standard
25 single piece parcels are received by NDMS. I was wondering

1 if you had a similar estimate for letters or flats.

2 A I hadn't -- did not develop one.

3 Q Let's take a look at your page 42.

4 A Yes.

5 Q In the bottom paragraph, the summary section, it
6 starts I guess at lines 11 and 12 and carries over to page
7 43, you suggest some principles for the Commission to
8 consider in determining when and where to de-average within
9 First Class mail.

10 I am curious, do you think these principles have
11 application outside of First Class?

12 A Well, I think the second one applies everywhere,
13 should apply everywhere.

14 I think when you are dealing with other classes
15 where the mail is only entered at a Business Mail Acceptance
16 Unit, and it's only entered by mailers who can be considered
17 to be reasonably sophisticated and aware of all the
18 regulations or the pertinent regulations in the DMCS and the
19 DMM, that a higher level of complexity can be tolerated than
20 in the subclasses used by the general mailing public at
21 large.

22 I think the complexity criterion or the simplicity
23 criterion can be interpreted differently under the
24 circumstances.

25 Q Would it be your view that the decision to

1 de-average should be made when some of the criteria are met
2 or all three are met?

3 A In the case of First Class mail, I think that all
4 three are appropriate.

5 Q And I want to focus now for a moment on the first
6 of the criteria, which is listed at the top of page 43.

7 There you indicate that one of the criteria is
8 whether a substantial portion of the volume or revenue can
9 be de-averaged and I think at some other point in your
10 testimony you talk about if the volume is -- your words were
11 "well under 1 percent" than it should cause the Commission
12 to think twice about whether de-averaging is appropriate.

13 Are you suggesting therefore that there should be
14 some minimum threshold volume before a surcharge is applied?

15 A I am suggesting that in the case of First Class
16 mail particularly the Commission should give considerable
17 weight to the simplicity criterion of the act where the
18 service has a statutory monopoly, where it is the class of
19 mail used by the general mailing public, and they should be
20 both aware of and leery of balkanizing First Class mail into
21 lots of different rate categories, very finely prescribed,
22 based on some kind of cost differential.

23 I am suggesting that more rate averaging is
24 appropriate in First Class than it would be in other
25 classes.

1 Q Is your preference for a --

2 A If I could just elaborate just briefly --

3 Q Sure.

4 A -- it's customary where you have relative ease of
5 entry and a competitive market to find firms coming in and
6 carving out little niches for themselves and those little
7 niches lead to all kinds of pricing distinctions, pricing
8 quality distinctions of the marketplace, and to the extent
9 that you have competition then you have to be able to
10 respond to competition.

11 You have to be willing to tolerate, I think, more
12 complexity in a rate schedule than in a class of mail that
13 is probably the one class that is most protected by the
14 statutory monopoly, which gives you less need to be
15 responsive to these sort of competitive developments.

16 Q Is your preference for a minimum systemwide volume
17 motivated by any desire to ensure that the surcharge
18 produces the minimum threshold revenue?

19 A Can you repeat that again, please?

20 Q Well, you propose that the Commission should
21 consider taking into account the volume of pieces to which a
22 surcharge would apply and, as I indicated earlier, you
23 referred to the well under 1 percent standard as raising
24 some alarms, and I am wondering if your volume standard is
25 in any way influenced by a desire to ensure that the

1 surcharge produces a certain threshold of revenue.

2 A Well, I didn't set a revenue threshold but --
3 unless you are talking about some enormous surcharge the
4 revenue threshold and the volume threshold would tend to go
5 I won't say hand in glove but to move together, and I do
6 have a table in here in which I point out the percentage of
7 revenues that are contributed by the surcharge and that
8 percentage is even lower than the volume percentage that I
9 reference.

10 Q Would the purpose of any surcharge established
11 under your page 43 criteria be to influence mailer behavior?

12 A You say would the purpose -- would my purpose be,
13 or what is the purpose?

14 Q Would it be appropriate to -- for that to be a
15 purpose of establishing a surcharge, to influence mailer
16 behavior?

17 A If there is strong need to influence it in an
18 incentivized way, it could be a legitimate function of a
19 surcharge. I did note that -- if I could direct your
20 attention to footnote 6 on page 6, where certain mailer
21 behavior, such as mailing pieces that are too small to
22 process by the machinery would be undesirable, the Postal
23 Service has gone the extra nine yards and declared such
24 pieces to be non-mailable. So we are not talking about
25 using the pricing system here to influence behavior, we are

1 talking about using regulatory prohibition against mailing.

2 You are talking about the gray area where
3 something is considered mailable but for some reason might
4 not be considered as desirable as another piece, a
5 non-standard piece versus a standard piece. So if you
6 wanted to somehow give incentives, but without proscribing
7 or establishing prohibitions, surcharges and discounts are
8 -- they use the pricing system as a way to do that.

9 Q Have you had occasion to study volume history in
10 the non-standard surcharge area over the years? Do you know
11 whether, over the course of the last 20 years, the volume of
12 pieces to which surcharge applies has gone up or down
13 relative to total First Class mail volume?

14 A I believe I saw some data, historic data during
15 the course of preparing this testimony. But I didn't
16 reproduce it here because I didn't have confidence in it,
17 frankly.

18 Q Do you remember what the source was?

19 A It was Postal Service data. I forget whether it
20 was a previous case where I saw some percentages.
21 Obviously, it has to be Postal Service data, who else in the
22 world would have data on non-standard pieces of mail? I
23 forget which document I looked at or where I saw it.

24 Q If the percentage of non-standard surcharge pieces
25 in First Class mail, let's say 20 years ago, is the same as

1 it is today, looking back, would you consider that the
2 establishment of a surcharge at its inception was a mistake?

3 A I did not draw that conclusion in my testimony. I
4 think I pointed out that the Commission at the time either
5 was fearful or had factual evidence, I wasn't sure which,
6 that non-standard pieces could and would jam the equipment
7 that was then in existence, but the equipment that was in
8 existence at the time the decision was made, 19 -- well, the
9 decision in Docket MC73-1, is far different from the
10 equipment today.

11 So what I have suggested is that what was
12 appropriate then may not be appropriate any more. But I did
13 not characterize the decision at that time as a mistake for
14 the time in which it was made.

15 Q What I would like you to do is assume for me that
16 the existence of the surcharge over time has influenced
17 mailer behavior to suppress the volume of non-standard First
18 Class mail to the percentage of total First Class mail that
19 it represents today. If that were the case, would it be
20 your opinion that the surcharge has now done its job and can
21 be eliminated?

22 A Well, I am under the impression, based on my
23 reading of the specifications for the FSM 1000, that
24 flimsies, flats, that's light weight flats or flimsies, can
25 be processed as expeditiously as flats whose weight exceeds

1 one ounce. Flats constitute the majority of all
2 non-standard pieces.

3 I am also of the impression, despite certain
4 testimony to the contrary, that non-standard letters are now
5 processed routinely on letter sorting equipment as though
6 they were standard letters. And to the extent that those
7 two things are true, I see no need for a continued surcharge
8 on letters or flats. I see no need to give a disincentive
9 to mail something which is perfectly machineable.

10 Q Have you seen any specifications or data that tell
11 you that flimsy flats are processed as expeditiously as
12 automatable letters?

13 A I haven't seen any evidence that flats are
14 processed as expeditiously as letters. Letters, the
15 majority of letters are now being DPS'ed on automation
16 equipment. The Postal Service doesn't have automation
17 equipment for putting flats in delivery point sequence.

18 Q A second ago you referred to the specifications
19 for the FSM 1000. I am curious to whether you have seen any
20 actual operational data that confirms your opinion about the
21 FSM 1000's ability to process flimsy flats?

22 A I looked at the data that were made available in
23 this case on the machine, the tests that were run at Albany,
24 and the predecessor the production machine, which was
25 referred to oftentimes as the Albany machine because that

1 was -- the machine was tested at Albany, and there is no
2 indication that they -- they claim to have run flimsies on
3 it and there is no indication that the failure for flimsies
4 was any greater than the failure rate for non-flimsies. The
5 failure rate was very low on all the mail run on the
6 machine. It seems to^{be} a highly successful machine.

7 And there is a reference in Witness Moden's
8 testimony to a new machine being deployed within two years,
9 and I would like to think that the new machine will
10 represent an improvement on the existing machine in all
11 respects.

12 Q Do you know whether the FSM 1000 is as productive
13 as the FSM 881?

14 A Are you -- well, there you have a -- I'm not sure
15 what the question is. The question strikes me as ambiguous
16 in the following sense. The FSM 881s my understanding is
17 have all been retrofitted with bar-code readers at this
18 point, and the FSM 1000 has yet to have bar-code readers
19 deployed.

20 So if you're comparing the FSM 1000 without
21 bar-code readers to the 881 with bar-code readers installed,
22 I would expect the machine with bar-code readers in
23 operation to be more productive than the machine without it.
24 But if you compare them in like modes, my understanding is
25 they operate at about the same throughput, say if they're

1 both being operated in the manual mode and if they were to
2 both be operated in the bar-code reading mode when the
3 bar-code readers are available on the FSM 1000.

4 MR. TIDWELL: That's all we have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Is there any followup?

6 Questions from the bench?

7 Would you like a couple minutes for redirect?

8 MR. OLSON: Probably 30 seconds.

9 CHAIRMAN GLEIMAN: You've got it.

10 [Discussion off the record.]

11 MR. OLSON: Mr. Chairman, we have no redirect.

12 CHAIRMAN GLEIMAN: If that is the case, Dr. Haldi,
13 I want to thank you yet again for your appearance here today
14 and contributions to the record, and if there's nothing
15 further, you're excused until next Thursday.

16 THE WITNESS: Thank you, Mr. Chairman. It's a
17 pleasure to be cross-examined by one of the real
18 heavyweights of the Postal Service legal team. I thank you.

19 [Laughter.]

20 CHAIRMAN GLEIMAN: You're talking about ability
21 and not physique; is that correct?

22 THE WITNESS: Absolutely. Absolutely.

23 MR. TIDWELL: Mr. Koetting left right after lunch.

24 [Laughter.]

25 THE WITNESS: I'm glad you cleared up any

1 ambiguity on that point.

2 [Witness excused.]

3 CHAIRMAN GLEIMAN: Our next witness is from the
4 Parcel Shippers Association. Mr. May, if you could identify
5 your witness so that I might swear him in. I'll give you a
6 moment to get situated.

7 MR. MAY: Mr. Jim Jellison, the executive
8 vice-president of the Parcel Shippers Association.
9 Whereupon,

10 JAMES V. JELLISON,
11 a witness, was called for examination by counsel for the
12 Parcel Shippers Association and, having been first duly
13 sworn, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. MAY:

16 Q Mr. Jellison, I'm handing you two copies of a
17 document captioned the testimony of James V. Jellison on
18 behalf of the Parcel Shippers Association, as revised. I
19 would ask that you examine these and see if this is the
20 testimony you offer in this proceeding.

21 A It is.

22 Q And do you adopt this testimony as your testimony
23 in this proceeding today?

24 A I do.

25 MR. MAY: That's all, Mr. Chairman.

1 I'm handing two copies to the reporter and ask
2 that they be transcribed into the record.

3 CHAIRMAN GLEIMAN: Are there any objections?

4 Hearing none, Mr. Jellison's testimony and
5 exhibits are received into evidence, and I direct that they
6 be transcribed into the record at this point.

7 [Direct Testimony and Exhibits of
8 James V. Jellison, PSA-T-1, was
9 received into evidence and
10 transcribed into the record.]
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PSA-T-1

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

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

DIRECT TESTIMONY

OF

JAMES V. JELLISON

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

**Timothy J. May, Esquire
Patton Boggs, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037-1350
Tel. 202/457-6050
Fax. 202/457-6315**

**Counsel for
Parcel Shippers Association**

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AUTOBIOGRAPHICAL SKETCH

My name is James V. Jellison. I am the Executive Vice President of the Parcel Shippers Association, and offer this testimony in that capacity. As a former USPS Officer and employee, mailing industry consultant, and as the resident manager of this Association, I have worked in the mailing industry since 1956. I retired from the USPS in 1986 from the position of Senior Assistant Postmaster General, Operations. In that position I had exposure to the processing and transportation requirements for all classes and types of mail. I also had opportunities to discuss these issues with mailers who would likely be impacted by the decisions we were making within our internal operations. Since retiring, I employed that same knowledge and background in counseling individual mailers and mailers associations, either as a consultant or, as I am now, an active manager of an association.

Throughout that 41 year experience, I have served on industry work groups, panel discussions, Postal Forums, and postal issue gatherings of all types representing both the USPS perspective and the industry perspective as I understood them.

The Parcel Shippers Association is an organization of approximately 200 members, most of whom advertise their products through the U.S. Mails and by other media, who ship their products to the market place using the Standard A, Standard B, Priority Mail, and Express Mail package services of the USPS as well as UPS, FedEx, RPS, and other carriers. Our members also rely on the USPS to deliver their mail orders for merchandise and to send bills and receive payment for that merchandise.

INTRODUCTION.

The primary reason these companies band together as an association is because they have a common interest in the need for effective delivery to the business and residential consumers of the world. Effective is defined to be dependable service at a reasonable price, service which constantly evolves to take advantage of technological advances in our field. While there is fairly effective competition in the expedited package market and some in the business to business market, there is not in the residential delivery market. Over the past nearly four years that I have been with this Association, the primary concern expressed by our members has been the dominance of UPS in this residential delivery market. The testimony of PSA member Dale A. Mullin, Avon Products, Inc., describes the difficulties that confront mailers because of this market dominance by one carrier. We feel very strongly that only the USPS is, for the short term, positioned to provide meaningful competition in this area of residential delivery.

My testimony will examine why our members feel the USPS rates and classification proposals are crucial to their long term interests and their ability to select their carriers in a more competitive environment.

As my testimony will develop, the overall 10.2% rate increase proposed for parcel post is unwarranted, excessive, contrary to USPS' own stated policy on cost coverage and unjustifiably out of line with other proposed increases. And the 10¢ Standard (A) parcel surcharge is discriminatory, unnecessarily large, and will have very damaging impact on users. On the other hand, other Postal Service proposals in this

case are very positive moves in making the USPS more competitive in the market place, although we do have some concerns that we need to address.

I. SURVEY OF MEMBERSHIP

As PSA has customarily done, I caused a survey to be taken of our members to ascertain their reaction to USPS rate and classification proposals. The survey questions are also designed to provide basic information about the parcel shipping market and the carriers who deliver our members' parcels. The survey questionnaire is attached to my testimony as Appendix A. Responses were also returned by three (3) members of the Mail Order Association of America, two (2) of whom are also members of PSA. Thus, there were thirty-five (35) respondents. Five (5) of those respondents do not ship Standard (B) parcel post-type parcels.

Following is a summary of the results:

- Respondents shipped 348,610,000 Standard (A) parcels by USPS, and 8,405,000 by UPS.
- Members shipped 124,522,000 Standard (B) Parcel Post by USPS, and 127,596,000 of that type parcel with UPS.
- In addition, respondents also shipped 58,000,000 pieces of bound printed matter and records that weighed one (1) or more pounds.
- Fifty-five percent (55%) of those responding commingled their Standard (A) and Standard (B) parcels when shipping by USPS, but only seventeen (17%) of those using UPS commingled their Standard (A) and Standard (B) parcels.

- Twenty-four (24) respondents used both USPS and UPS for their Standard (B) parcel post to some extent.
- Of the thirty (30) who reported using UPS, fifteen (15) reported having special contract rates for their shipments.
- Sixteen (16) respondents reported shipping 25,343,000 parcels by a carrier other than USPS and UPS. This represents 9.1% of the total category of over one (1) pound parcels, which is up from the results of previous surveys conducted over the years, which typically reported less than one percent (1%) of total parcels shipped by a carrier other than USPS or UPS.

A. Degree Of Presorting And Mail Preparation

The survey also asked a series of questions attempting to ascertain the current degree of presorting and preparation, and the willingness of members to do more worksharing or to use a consolidator in order to qualify for the Postal Service's proposed drop shipping discounts. Those results show the following:

1. OMBC Discount

- Of twenty-six (26) who responded to whether they are currently eligible for the OMBC discount, seventeen (17), or sixty-five percent (65%) ,responded that they were.
- Of the ten (10) who responded that they were not eligible, four (4) stated that they would do the work in order to qualify for the discount and six (6) said they would not. In addition, there were four (4) respondents who report that they currently qualify for a part of their shipments and who would do the necessary work to qualify the remainder of their shipments in order to earn the discount.

2. DBMC Discount

- Of twenty-eight (28) respondents, eighteen (18), or sixty-four (64%) reported that they are currently eligible for the DBMC discount. Of the ten (10) who said they were not currently eligible, four (4) said they would do the work to qualify and six (6) said they would not. Four (4) of the eighteen (18) who responded that they currently qualified for part of their shipments said that they would do the necessary work to qualify the remainder of their shipments for the discount.

3. DSC Discount

- Of the thirty (30) who responded, only four (4) said that they currently would qualify for the DSC discount. And of the twenty-six (26) reporting they did not currently qualify, eleven (11) said that they would do the work to qualify and fifteen (15) said they would not.

(There were two (2) respondents who already use consolidators and therefore they were not counted as respondents to this series of questions.)

- Another nineteen (19) respondents stated that they would use a consolidator in order to qualify; this included ten (10) of those who had already responded that they would do the work in order to qualify. This is a fairly significant number because it suggests that twenty (20) of the twenty-six (26) respondents, or seventy-seven percent (77%) of those who do not qualify would do what is necessary, including using a consolidator, in order to earn the Destination Sectional Center discount.

4. DDU Discount

Of thirty (30) respondents, only four (4) indicated that they would currently qualify for the DDU rates. These are the same four (4) who also indicated they would currently qualify for the DSCF rates. Of the twenty-six (26) who do not currently qualify, seven (7) said that they would do the work to become eligible and nineteen (19) said they would not. Of the nineteen (19) who said they would not do the preparation work, nine (9) stated they would be willing to use a consolidator. Thus, out of a total of thirty (30) respondents, twenty (20), or two-thirds, either currently qualify or would do whatever is necessary, including using a consolidator to qualify.

B. Use Of Delivery Confirmation

The survey also queried respondents whether they would use the manual and electronic delivery confirmation service being offered. Only three (3) of thirty-one (31) respondents said that they would use the manual service; however, twenty-four (24) of thirty-three (33), almost seventy-three percent (73%), said they would use the electronic confirmation service.

C. Size Increase and Balloon Surcharge

The survey also questioned members about the impact of the increase in length and girth over 108", with the ten percent (10%) restriction, and the balloon parcel surcharge.

Sixteen (16) of the thirty-three (33) respondents said that they did have parcels that exceeded 108" in length and girth and that, if the size expansion is approved,

thirteen (13) of the sixteen (16) would switch their parcel business to USPS. About 4.4% of their parcels are reported to exceed the current 108" limit.

Also, sixteen (16) out of the thirty-two (32) respondents indicated that they would be impacted by the proposal to charge a minimum rate for balloon parcels. Also, five (5) of those sixteen (16) report that they would switch their business away from USPS to a competitor if this balloon charge is approved.

Of more than passing interest, this survey does show a significant shift in the two carriers' market shares for these respondents. In prior surveys UPS always emerged as the overwhelmingly dominant carrier of our members' parcels. As can now be seen, at least for these respondents, while UPS is still the major carrier, USPS has a 44.8% share. This must be attributed in part to improved parcel post service, and, more particularly, to the competitive prices that USPS offers for residential delivery compared to UPS residential delivery rates, which are substantially higher, for those who do not have special contract rates, than the commercial rates. This does not mean that USPS is in a position to challenge UPS for a more significant market share. It merely means that many of those who responded to the survey, and who are predominantly residential shippers, have switched their patronage away from UPS to the Postal Service. Nevertheless, UPS remains, for most of the market, the overwhelmingly dominant carrier.

It is also significant to note that the thirty-five (35) respondents report that their current total volume of parcel post shipped by USPS is 124,522,000¹. That would

¹ We have excluded the parcel post volumes reported by CTC, a consolidator, on the supposition that they have been largely double counted by being included in the report of other respondents.

constitute almost fifty-four percent (54%) of the total parcel post volume of 230 million Standard (B) parcel post parcels for FY 1997. Thus, while this survey makes no pretense at being a scientifically drawn sample, nevertheless the actual volume of reported parcels constitutes such a significant percentage of total parcel post volume that the survey results themselves, and the information the survey reports are of great significance as indicators of the probable behavior and responses of volume parcel shippers.

Before ending this section of my testimony, I would like to comment on a so-called market study conducted by the USPS that has been the subject of discovery by UPS. While the survey was not sponsored and is, therefore, not in evidence, we are concerned that its reported findings may be believed. The survey respondents indicated that 96% of parcels are already barcoded. The problem is that not all those parcels are barcoded with a code that can be read by an OCR. The application of a discount will make readability a requirement! The survey results have other incredible conclusions that none of our members are able to verify based on their personal experiences. I know of no one that is now drop shipping OBMC mail in a 3/4 full Gaylord; that is a different issue than what percent is now drop shipping to an OBMC. The most incredible figure is the survey finding that 59% of parcel volume is now being drop shipped to a DSCF. The question is fifty-nine (59%) of what? According to the wording in the interrogatories, it would be fifty-nine (59%) of the volume that the USPS conservatively expects to be drop shipped to the DSCF under the proposed rates. The question not posed is what percentage is that volume of the total volume. Members

with similar experience in the industry as I have found the survey results frankly to be a joke.

II. FURTHER DROP SHIP DISCOUNTS

I would like first to discuss those parts of the filing that have very strong support among our members and some of the reasons for that support. In Docket No. R90-1, the Commission recommended the DBMC proposal, correctly perceiving the critical role that DBMC would play in allowing the USPS to provide innovative and competitive service. The implementation of DBMC rates has clearly allowed the USPS to become a more competitive factor in the home delivery market. We support the new SCF and DDU pricing proposals as a further development that will allow the USPS to offer competitive services.

What must be understood about the parcel post drop shipping discounts that are being proposed for the first time in this proceeding is that, unlike other classes and subclasses of mail, there is currently relatively little existing activity in parcel post drop shipping to SCFs and DDUs. For that reason, it will require a substantial investment on the part of our members if they are to expand their drop shipping from the twenty-one (21) BMCs to which they currently ship to hundreds of SCFs and thousands of DDUs. The testimony of PSA member Steve Zwieg, Parcel/Direct Quad Graphics, makes clear that shippers will not make the costly investments DSC drop-shipping requires if the discounts are reduced. Small incentives will not provide sufficient return on our members' infrastructure investments. We strongly urge the Commission not to dilute

this opportunity by watering down the amount of the discounts the Postal Service proposes to offer for drop shipping in this proceeding.

The cost of parcel presorting and drop shipping is quite a different order of magnitude than it is for other types of mail. Parcel mailers must physically sort parcels during the process of fulfilling orders as opposed to the automated sequencing of letters and flats that occurs with mailing lists. Also, the required containerization results in a loss of cube utilization in mailer trucks as opposed to sacking. The size of the discounts must be sufficient to make up for the additional transportation costs incurred by our members, or they just won't do it.

We trust that the Commission understands there is nothing radical about SCF and DDU discounts. Those have been available to other business mailers for years; first class, Standard (A), and periodical mailers have for some time had a variety of worksharing options, whereas Standard (B) parcel mailers have had only DBMC or the single piece rate as their options. Parcel reform is long overdue and must be achieved in this case, a reform which will merely place business parcel post customers on an equal basis with other business mailers.

It is not yet clear how many of our members will be able to use these new services because of the densities required, but we can report that nearly all of our members are analyzing their operations to see what they must do to take advantage of them. It is very important to members making this analysis that UPS not succeed in having the implementing rules imposed by a regulatory body, instead of being left as an operational decision at the lowest level possible. The most innovative service is of no

value if it cannot be implemented using good operational sense. Our members are doing more outsourcing of their transportation requirements than in the past, and these new service proposals will allow them to become even more aggressive in this outsourcing, which, in turn, allows them more time and resources to manage their base business.

Our members are also very aware of the improvement in delivery times that will be accomplished by depositing their packages at a point as close as possible to the USPS delivery office. Our members report that the elapsed time for delivery is becoming more and more important to their customers; even of more importance, they have found that delivery in accordance with the customers' expectations is absolutely critical. These new drop shipment options should allow more consistency in elapsed time to delivery as well.

III. BAR CODE DISCOUNTS

We support bar code discounts for all packages, including Standard A parcels, for all the reasons stated above, but also because we believe that information capture technology is going to continue to develop in ways that will allow both the carriers and the mailing industry to improve their operations and their products' value added features. As an example, the standardized bar code concept the USPS has been working with industry on will allow mailers to pack enough information in the bar code to offer valuable advance operational volume data to the USPS, and will give mailers the information needed to track their packages and to reenter return orders into inventory and credit transactions with much less labor than is now being used. The argument

against discounts because mailers are already using bar codes in large numbers really misses the point. First, the use of a bar code reader to sort packages instead of humans has obvious operational savings; but, beyond this cost avoidance argument, it sets up a perfect marketing opportunity for the USPS to get its customers to think about the value of standardized bar codes and standardized element locations within the bar codes. One only needs to look at the rest of the materials handling industry to know that the world is moving in this direction. Our one concern is that the USPS recognizes the value of this bar code discount to Standard B parcels but not to Standard A parcels. That, frankly, bewilders us because the obvious opportunities are equally applicable to both!

IV. DELIVERY CONFIRMATION SERVICE

Delivery confirmation is also a must if the USPS is to be on the same competitive level as other carriers. We strongly support the concept of delivery confirmation and the pricing proposals the USPS has advanced including the free confirmation service for Priority Mail. The very nature of the expedited package market calls for confirmation services being offered as part of the basic price. Many of our members ship parts of their product line by expedited mail, and, for Priority Mail to be an alternative, they would expect it to include delivery confirmation as an integral part of the service.

We are told by our members that all of the worksharing discounts will be very important in their consideration of what carriers to use for their shipping needs. I do need to mention that, since the UPS strike this summer, more and more of our members are considering alternatives to their current shipping practices than ever

before. The interest of shippers to lower their dependency on UPS as a carrier is very high and, we believe, will be persistent. It's no secret that the only alternative to UPS in the home delivery market is the USPS. There can be no doubt the USPS can increase its market share if it can offer these worksharing opportunities.

V. COMPETITIVE FACTORS IN THE PARCEL SHIPMENT MARKET

There is another consideration, seldom discussed or quantified, that the Postal Rate Commission must be aware of when it is weighing the relative competitive positions of UPS and USPS parcel service. As the Commission is well aware, and has been often documented in these proceedings, it is not possible to make a direct comparison of the parcel post rates schedule and the UPS rates schedule because a very substantial number of major parcel shippers with UPS have secret contract rates that are substantially less than the published tariff. What the Commission may not be aware of, however, is that, for a variety of reasons including a more efficient UPS, it is more expensive to use USPS parcel post service than it is to use UPS, apart from whatever the applicable rates might be. I will describe a list of factors which cause a USPS parcel shipper to incur more expense than they would were they to use UPS:

1. Returned postage costs on nondeliverable parcels;
2. Reshipment of returned parcels;
3. Product costs due to lost parcels;
4. Reshipment costs of lost parcels;
5. Loss of savings on inventory reduction that would have occurred due to better service from UPS;

6. Space costs due to more inventory requirements;
7. Customer service labor costs because of problem delivery;
8. Costs incurred because of manifest complexity and system support;
9. Increased telephone costs due to a greater number of delivery problems for USPS than when using UPS;
10. The costs of internal postal audits;
11. The costs of sorting equipment and labor; and
12. The cost of maintenance on sorting equipment.

We have made no attempt to assess an industry-wide cost for these various factors, although I am told that some of our more sophisticated members have made that assessment for purposes of determining the actual relative costs of using one service rather than the other. However, I am told by our members that these costs are significant and, more often than not, they erase whatever actual rate advantage the Postal Service Parcel Post schedule may have over the UPS actual rates, particularly when speed and reliability of delivery are also important factors in making these decisions. We recite these factors not to criticize the Postal Service, although these factors do suggest there is a lot of room for improvement; rather, we point these factors out because the Commission needs to be aware of them in fixing parcel post rates if it wishes to maintain competition in this market, particularly the residential small parcel delivery market. Merely maintaining a parity in the relative rates charged by these two competitors (the only two in the market) does not guarantee at all that there will be

effective competition. Parcel post rates must be very competitively set for there to be any realistic choices offered to the market.

VI. INCREASED STANDARD B PARCEL SIZE

The USPS proposal to raise the current length and girth requirement of 108" to 130" makes good sense. All other carriers are at least 130". The proposal also has operational advantages to the mailers and the USPS. It is clear that USPS prefers its customers to drop ship as close to the delivery point as possible, leaving the USPS infrastructure more capable of providing better service to the small mailer, who must, of necessity, use USPS end to end processing. This increase in size limit will increase the volumes mailers will have available to fill out otherwise marginal vans for direct shipments and drops to points deeper in the USPS operational chain. This means better service, not only for these larger parcels, but for all parcels that have now become qualified, in terms of density, to drop ship. It also simplifies the mailers' operations; in the past they have had to split their operations between loads for USPS and the alternate carrier who would accept these larger parcels.

Frankly, PSA is disappointed that the Postal Service felt it had to limit the number of parcels in a mailing which could exceed the 108" limit. Such a proposal does not go as far as our members need. However, we do support the Postal Service proposal because, if it is recommended and adopted, and the Postal Service's experience with the larger parcels goes smoothly, then we hope we would be able to make the case in the future that the restriction should be removed.

VII. STANDARD B PARCEL INCREASES AND COST COVERAGE

As valuable as the new service proposals are to the competitive delivery situation in residential areas, overall rate increases proposed for parcels in this case will cancel that advantage. Increases of 20% to 30% in the majority of the weight and zone cells are excessive in a case where the overall revenue increase that is needed is so much lower than would justify asking mailers to increase the rates they pay by 20% to 30%! Part of this increase is due to trying to obtain a coverage level that USPS believes would be acceptable to the Commission. Obviously, that is an important consideration; but then USPS refuses to attribute costs to parcels as directed by the PRC in the last several proceedings. I refer, of course, to the handling of the Alaska air costs by the USPS. These costs should not be charged to parcel post, but the USPS refuses to exclude them, thereby giving the false impression that parcel post is not covering its costs.

Postal Service witness O'Hara is the Postal Service policy witness that proposes the appropriate amount of cost coverage for each subclass of mail. He has proposed coverage of 104% for parcel post, and acknowledges that the overall 10.2% increase for parcel post that is necessitated by his coverage objective is one of the highest proposed. (USPS T-30, p. 37) Witness O'Hara also testified, however, that he regretted that the increase had to be that large (Tr. 2/478) and also stated that if the attributable and incremental costs had been less than they were for parcel post, he would have proposed the average 4% increase, "depending on what coverage that would have resulted in," (Tr. 2/479) meaning, presumably, that it would yield 104%

coverage, since he was firm in his judgment that 104% was the proper coverage, and equally certain that had he been able to do so, the increases he would have proposed would be "much lower than the 10.2%." (Tr. 2/481) We agree that 104% is a proper coverage for parcel post.

The reason that the Postal Service has had to propose an overall 10.2% increase in this case for parcel post is because it has once again defied the Postal Rate Commission's consistent ruling that nonpriority Alaska air costs are not properly attributable to parcel post. There is not one line of testimony offered by the Postal Service to justify its continuing defiance of the Commission's decision on this matter; not one change cited that would merit a reconsideration of the Commission's decision; in fact, there is simply no discussion whatsoever. Postal Service witness Mayes, who designed parcel post rates, asserts that it was not her decision to reject the Commission's treatment of Alaska air costs. She stated that it was Postal Service witness Patelunas who assigned these costs to parcel post. (Tr. 8/4265) One will search witness Patelunas' testimony in vain for any basis for his decision, if he is the one who made it, to reject the Commission's treatment of Alaska air costs and to attribute them to parcel post.

What exactly is the impact on parcel post costs? By stringing together various responses from the Postal Service, we have calculated the impact in this proceeding of that decision. The intra-Alaska nonpreferential air transportation after rate cost adjustment, utilizing the Commission's methodology, causes a reduction of \$75,609,000.00 in parcel post costs. (The source for this number is Attachment 1 to

the USPS response to PSA/USPS-1.) According to Postal Service Exhibit USPS-30B, revised 9/19/97, line 29, the Parcel Postal TYAR Revenue is \$782,916,000.00. According to that same Exhibit, Parcel Post TYAR costs are \$753,327,000.00. A reduction of \$75,609,000.00, utilizing the Commission's adjustment for intra-Alaska nonpreferential air, produces a TYAR Parcel Post cost of \$677,718,000.00. Thus, the Postal Service's proposed 10.2% rate increase is estimated to yield \$782,916,000.00 of revenue with costs of \$677,718,000.00, yielding a cost coverage of 115.52%. These calculations are reflected in the following table:

TABLE 1
PARCEL POST TYAR COVERAGE AT PROPOSED RATES

1. Parcel Post TYAR Revenue (Exhibit USPS-30B, revised 9/19/97, line 29)	\$782,916,000
2. Parcel Post TYAR Costs (Exhibit USPS-30B, revised 9/19/97, line 29)	\$753,327,000
3. Intra-Alaska Nonpreferential Air Transportation After Rate Cost Adjustment (Attachment 1 to Response to PSA/USPS-1)	(\$75,609,000.00)
4. Total TYAR Costs After PRC Adjustment for Alaska Air Costs (line 2 plus line 3)	\$677,718,000.00
5. TYAR Revenues in Excess of Costs (line 1 minus line 4)	\$105,198,000.00
6. Percent of Cost, or "Cost Coverage" (line 1 ÷ line 4)	115.52%

A coverage of 104%, which Postal Service witness O'Hara testified repeatedly was the appropriate coverage for parcel post, would have required revenues of only \$704,827,000.00. That is \$78,089,000.00 less than the revenue that will be yielded by the Postal Service's 10.2% increase. In other words, a 10% reduction in the amount of

revenue that is produced will still yield the desired 104% cost coverage; and that 10% reduction is precisely equal to the entire 10.2% rate increase proposed by the Postal Service in this case. In other words, if there had been a zero increase in the overall rates for parcel post, test year after rates revenues would have equaled \$710,450,000.00, ($\$710,450,000.00 \times 110.2\% = \$782,916,000.00$). That means, that with no rate increase at all, parcel post would still have had coverage of 104%.² Consequently, utilizing the Commission's adjustment for Alaska air costs, the Postal Service will achieve its stated policy objective of 104% cost coverage for parcel post with a zero increase in rates overall.

We realize, of course, that all of these calculations make several unrealistic assumptions: that at lower rates the volumes would not change and therefore the costs and revenues would not change; and that the Postal Service's stated policy objective of 104% cost coverage would not have changed even though such a position yielded a zero increase in rates. Nevertheless, the numbers amply demonstrate that the Postal Service's increases are greatly out of line with all other increases and are unnecessarily so because they are not needed in order to meet the Postal Service's 104% coverage factor, the justification they advanced for proposing such high rate increases.

Taking the Postal Service at its word, that is, that, had it been able, it would have proposed no more than the average 4% increase for parcel post, it is useful to examine

² This result is also in accord with the coverage for parcel post in the Test Year Before Rates, with the PRC modification on Alaska air. According to USPS Exhibit 30A Parcel Post Costs will be \$786,812,000.00 TYBR, and revenues will be \$737,970,000.00. Reducing the TYBR costs by the \$75,609,000.00 of Alaska air yields TYBR costs of \$711,203,000.00. That revenue cost relationship produces cost coverage of 103.8% in the TYBR ($\$737,970,000.00 \div \$711,203,000.00$).

what coverage that would produce in this case. Again assuming that there are no volume changes because the rates are less than proposed, a 4% increase in revenues would equal revenues after rates of \$738,868,000.00 ($\$710,450,000.00 \times 104\%$). After rates revenues of that amount would produce coverage of 109%. ($\$738,868,000.00 \div \$677,718,000.00$, the TYAR costs.) At the most, bearing in mind the high price elasticity of parcel post, and bearing in mind the Postal Service's own sworn testimony that, were the costs to have permitted it, they would have proposed no more than an overall 4% increase, it is clear that the proposed parcel post rates are excessively high, and that the Commission should recommend overall increases no greater than the average 4% rate increases proposed in this case.

We urge the Commission to carefully consider the competitive position of this sub-class of mail and the impact on competition of 30% increases at a time when overall rates need to be increased only 4% to meet the revenue requirement.

VIII. STANDARD A RESIDUAL SHAPE SURCHARGE

The Standard A parcel surcharge is of great importance to our members. With the regular Standard A increases plus the surcharge, these concerned members face huge percentage increases in both Standard A and Standard B parcels. As best I can understand this proposal by the Postal Service, it was motivated by a finding (unsupported by evidence of record) of the PRC that this small percentage of Standard A mail is more expensive to handle than Standard A flats, and a further directive from the PRC to do something about it or else. I have never heard the so-called "victims" of this inequity complain about it. This additional cost is presumed to be caused

predominantly by the shape of the article and not the weight of the article. In the now-aborted Parcel Classification Case, the "cost study" presented by the USPS essentially said USPS was able to isolate the cost difference caused by shape by comparing the costs of ECR parcels and flats, where the weight of the average parcel was nearly the same as the average flat; the presumption, therefore, was any cost difference must be due to shape. I could not find a single member that mails Standard A parcels at the enhanced carrier route rate! So where did this volume come from and how much of it was there? I don't know, but supposedly the USPS knows, and its witnesses now say the ECR cost differential is no longer 20 cents, as it was in March, but it is now around 40 cents.

USPS witness Moeller had to concede that witness Crum's cost study merely identified the cost differences between Standard (A) flats and parcels, but did not offer any explanation to account for these cost differences; in other words, even though Mr. Moeller calls this 10¢ surcharge a shape-based surcharge, witness Crum's study does not establish shape as the cost causing factor. (Tr. 6/3055-56)

The Postal Service defines parcels in this proceeding as they are in the IOCS Field Operating Instructions Handbook F-45 (this is reproduced beginning at Tr. 5/2202). The volumes of Standard (A) parcels are entered into the Permit system based on the shape determination that is placed on the mailing statement, and the mailing statements give directions that they should be filled out as referenced in DMM C050. However, the actual costs of handling parcels and flats is based upon a sampling system that has no reference to the mailing statements filed by the mailers.

USPS witness Crum was asked how a tally clerk would record parcels that were less than 3/4" thick that were combined with those that were more than 3/4" thick. He stated that it was his understanding that the proportions were heavily weighted one way or the other and that the clerk would select the category of "parcel" or "flat" depending upon the majority of the volume the mailing. (Tr. 5/2219)

The fragility of the cost data is perfectly illustrated by witness Crum's own testimony which finds that the cost difference between ECR flats and parcels is \$0.391, which was almost twice as high as the cost difference that witness Crum presented in Docket No. MC97-2, just a few months prior to filing this testimony. (Tr. 5/2242)

The actual mail processing costs differences for flats and parcels are derived from the sampling data accumulated and reflected in Library Reference 146. Witness Crum stated that those collecting that data based their definition of a parcel and a flat on the IOCS shape tally referred to in Handbook F-45. (Tr. 5/2383) But witness Crum did have to concede that, "An individual tally-taker certainly could have, in an instance, picked the improper shape designation for the reasons you suggest." (Tr. 5/2384)

USPS witness Crum claims that postal employees were able to distinguish between a Standard A parcel and a flat because they were given 120 hours of training, or at least mail classification specialists were. (Tr. 5/2341) He claimed that, based on his understanding in speaking with the people involved in training, one of the items discussed as part of the training was how to distinguish between a Standard (A) flat and a parcel. (Tr. 5/2341) However, he had to admit that, where the dimensions were roughly close between a flat and a parcel, it would be difficult for the unaided eye to

correctly distinguish between the two. (Tr. 5/2342) Finally, the Postal Service made no effort to factor in the influence of weight on the cost of a parcel nor the amount of revenue that that parcel produced. Since the average parcel weighed 8 ounces, the Service conceded this necessarily meant there were hundreds of millions of parcels that weighed more than 8 ounces. (Tr. 5/2344-45)

The Postal Service has not even bothered to estimate the effect of the 10¢ surcharge on the cost coverage of Standard (A) parcels. The Postal Service dismisses this as unimportant because there are no cost coverage targets separately for parcels as distinguished from flats in Standard (A). Thus, the Postal Service admits that it does not even know whether the surcharge might create a higher cost coverage for Standard (A) parcels than for Standard (A) flats. At the same time the Postal Service agrees that it is possible that, and would not be surprising if, the averaging of cost difference between letters and nonletters was greater than the averaging of cost difference between flats and residual shape pieces. In other words, there could be an even more serious cross-subsidization problem between letters and nonletters than there are alleged to be between flats and parcels. This raises the question of why the Postal Service felt it was necessary to address the potentially less serious amount of cross-subsidization between flats and an insignificant portion of Standard (A), that is, parcels, which are not even separate rate categories, but at the same time ignore what could be a potentially more serious cross-subsidization issue between letters and nonletters, which are in fact two separate rate categories. (Tr. 6/2885)

We have to ask again: why has USPS singled out this insignificant portion of a rate category that is, in turn, only part of one of several subclasses of Standard (A).

What about First Class?

A. FIRST CLASS SHAPE COSTS: FLATS VERSUS PARCELS

According to Exhibit USPS-43C, there are a total of 383.2 million non-standard pieces of First Class Mail; of this total there are 73.6 million letters; 282.4 million flats; and 27.2 million parcels. The parcels comprise 7.1% of the total. In light of the USPS proposal for a parcel surcharge in Standard (A), one wonders why there is a uniform surcharge for non-standard FMC letters, flats, and parcels when there are such great cost discrepancies in their mail processing. More particularly, why is it that non-standard first class parcels, which according to the study cost 16¢ more per piece to handle than flats, do not pay any more than the non-standard flats? And, why don't the flats pay more than letters? This seems a significant enough segment of mail volume, 383.2 million pieces, to warrant discrete treatment. In fact, First Class mail parcels constitute 8.7% of the total of non-standard first class flats and parcels; whereas Standard (A) parcels constitute only 3.5% of all commercial nonletter Standard (A) mail. If the Service believes an insignificant percentage of a category of mail such as Standard (A) parcels should be singled out for special rate treatment to cover its cost differentials, why isn't the larger percentage of parcels in First Class mail singled out for a special surcharge to cover its cost differential.

B. STANDARD (A) PARCEL COVERAGE

Postal Service witnesses have stated that they do not know, and are unable to project, what the cost coverage either before or after rates would be in the Test Year for Standard (A) Parcels; what the average cost per parcel will be in the Test Year; nor what the average revenue per piece will be for Standard (A) Parcels. In fact, the Postal Service has admitted they do not know whether the average revenue per piece that will be yielded for Standard (A) Parcels, in the absence of a surcharge, would be equal to or greater than the average per piece cost. Despite this lack of knowledge the Postal Service nevertheless is asking the Commission to make Standard (A) Parcels pay a 10¢ surcharge, not because Standard (A) Parcels will not cover their costs; not because there is something particularly burdensome about a Standard (A) Parcel; but simply because the Postal Service's base year cost estimates show that Standard (A) Parcels are considerably more costly to process than Standard (A) Flats.

While the data is not available to make Test-Year comparisons of the revenue contributions and coverages of Standard (A) parcels and flats, we believe we can use USPS data to make these comparisons for the Base Year. Utilizing data contained in USPS witness Crum's Exhibit K, we have calculated the Base Year per piece costs, the average weight per piece, and the revenue per piece, separately for letters, flats, and parcels, for the ECR, the Regular, the Non-Profit ECR, and the Non-Profit Regular categories. We have made the assumption, which should be a roughly close approximation, that the average costs per piece that are derived from this Postal

Service data are costs that can be applied to each one of the pieces listed in Tables 1 and 2 of Mr. Crum's Exhibit K. This information is presented in the following Exhibit A.

BASE YEAR DATA FOR STANDARD A LETTERS, FLATS, AND PARCELS

<u>ECR</u>	Cost/Piece ¹ \$	Vol. ² (000)	Wgt. ² (000)	Rev. ² (000)	Rev./Piece ³	Coverage ⁴ (%)	Wgt./Piece ⁵ (lbs.)	Wgt./Piece (oz.)
Letters	.058	12,808,617	863,349	1,722,628	13.45¢	232.00%	.0674	1.08
Flats	.064	16,303,000	3,236,038	2,564,898	15.73¢	246.00%	.1985	3.175
Parcels	.455	69,464	12,029	10,992	15.80¢	35.00%	.173	2.77
All	.062	29,180,700	4,111,416	4,298,518	14.73¢	237.60%	.1408	2.25
<u>Regular</u>								
Letters	.097	19,075,362	1,177,288	3,438,281	18.02¢	186.00%	.0617	0.987
Flats	.182	10,205,710	2,387,896	2,481,505	24.30¢	133.00%	0.234	3.74
Parcels	.513	868,434	483,659	403,812	46.45¢	91.00%	0.5563	8.9
All	.138	30,150,506	4,048,843	6,323,598	20.97¢	152.00%	0.1342	2.14
<u>Nonprofit ECR</u>								
Letters	.040	2,294,416	107,479	168,863	7.35¢	184.00%	0.0468	0.75
Flats	.070	612,812	84,658	72,586	11.80¢	169.00%	0.138	2.2
Parcels	1.382	1,389	266	178	12.80¢	9.20%	0.1915	3.1
All	.047	2,908,617	192,403	241,627	8.30¢	176.75%	0.0838	1.34
<u>Nonprofit Regular</u>								
Letters	.083	7,687,399	361,813	807,094	10.49¢	126.50%	0.0471	0.75
Flats	.191	1,570,708	251,682	255,922	16.93¢	88.60%	0.16	2.56
Parcels	.659	42,360	16,933	11,232	26.50¢	40.20%	0.3997	6.4
All	.104	9,300,467	630,428	1,074,248	11.55¢	111.00%	0.0677	1.08

¹ USPS-T-28, Exhibit K, Table 3² USPS-T-28, Exhibit K, Tables 1 and 2³ Col. 4 ÷ Col. 2⁴ Col. 5 ÷ Col. 1⁵ Col. 3 ÷ Col. 2

Out of a total of 982,647,000 Standard (A) Parcels, 869,434,000, or 88-1/2%, of all the categories of parcels are regular for-profit. This category of parcels shows per piece costs of 51.3¢, compared to 18.2¢ for flats, or 33.1¢ per piece more, not the 40¢ per piece differential the Postal Service testimony speaks about. Witness Crum further adjusts parcel costs by reducing them by 7.3¢ per piece (Exhibit K, Table 7.) This represents .3¢ due to the deeper entry of flats and 7.0¢ because of the finer presort of flats. Limiting the adjustment to Regular Commercial Standard (A), the adjustment of parcel costs would only be 1.4¢. Thus, the actual commercial regular parcel cost would be 51.3¢ less 1.4¢, or 49.9¢. The parcel/flat cost difference would then be 31.7¢ (49.9¢ minus 18.2¢).

The Table also shows that the average per piece revenue from a flat is only 24.3¢ per piece, whereas the average revenue per piece for a parcel is 46.45¢, almost twice as much revenue. Thus, while a parcel may cost 31.7¢ more per piece, according to these numbers, it also earns 22.15¢ more per piece revenue for the Postal Service. The Table also shows that the average flat weights 3.74 ounces and the average parcel weights 8.9 ounces. Despite the Postal Service's contention, that there is no evidence that weight in Standard (A) is a significant cost causing factor, we suggest the opposite is obviously the case: that weight is every bit as distinct a cost causing factor as shape. We would also point out, however, that the Postal Service's rate structure takes account of that additional cost by charging more for that average parcel, in this case almost twice as much.

Thus, if we accept, for the sake of argument, that there is some common sense to the Postal Service's claimed cost numbers derived from Library Reference 146, when

seen in the perspective of the actual cost revenue relationships between Regular Rate Flats and Regular Rate Standard (A) Commercial Parcels, one is left with an actual discrepancy of around 9.55¢, a number close to the 10¢ the Postal Service is proposing in this case. The Postal Service, however, would have you believe that they are being inordinately generous in only passing through in the form of a surcharge one-quarter of the cost difference. In fact, the Postal Service is exacting slightly more than the actual difference in the cost revenue relationships of regular rate flats and commercial parcels.

The lumping together in this case of all categories, for-profit and not-for-profit, ECR as well as Regular, obfuscates the true picture of what the numbers demonstrate are cost/revenue discrepancies for the overwhelmingly predominant volume in Standard (A). Viewed from another aspect, if, for the base year, one adds in the 10¢ surcharge to the average revenues yielded on a commercial Standard (A) Regular Parcel, according to Postal Service data, that revenue yield would be 56.45¢ per piece versus an average cost of 49.9¢ per piece. In other words, a 3.45¢ surcharge would allow these parcels to cover their costs.

We would make the point that, while we object to separating out parcels from flats in Regular Standard (A) when there is no existing sub-class or rate category distinction, we most emphatically object to lumping together Regular Parcels with Parcels in three other rate categories and subclasses, that is, ECR Parcels, Non-Profit ECR Parcels, and Non-Profit Regular Parcels. These are all separate rate categories or subclasses, with separate and distinct costs and revenue yields. They should be

treated differently with respect to any surcharge. There is no more justification for visiting a surcharge on Regular Standard (A) Parcels because First Class Parcels are not covering their costs than there is for imposing a surcharge on Standard (A) Parcels because the parcels of another separate subclass, for example, ECR Parcels, are not covering their costs.

We have already pointed out the fragility of the Service's cost estimates for Standard (A) Parcels and Flats; and all the reasons why they should be viewed with great skepticism. Nevertheless, giving full credit to the mail processing costs reported in Library Reference H-146, there is no case for any surcharge on Commercial Standard (A) Regular parcels.

CONCLUSION

I can only repeat what representatives of our Association have always said to the Commission: what our members want is real competition between carriers for the business of delivering our products to the market place. I don't believe anyone can deny that in the home delivery market there are only two players in the ground delivery portion of this market. UPS and USPS! I also don't believe anyone can deny that UPS is so dominant in this market that they can dictate to the customers what kind of service they can expect and what price they will be expected to pay. Our PSA member, Dave Mullen presents the harm this situation has caused and will continue to cause until there is more effective competition in this market. The USPS' totally out of line increases for parcel post will harm not help competition.

And finally, we do not think that the damage that will be caused by a 10¢ surcharge to that group of less than 1 billion Standard (A) parcels just so that some tiny relief be accorded to the over 26 billion pieces of Standard (A) flats is worth it. The estimated \$93.9 million in revenues that will be derived from the 10¢ residual shape surcharge could have benefited the average commercial flat in Base Year FY '96 by only .35¢ per piece. (Tr. 6/2739) In other words, we do not see how the Post Office justifies visiting rate increases in excess of 50% on certain Standard (A) parcel mailers, in order to have a reduction for Standard (A) flat mailers of an average of 1/3 of a cent per piece. (Tr. 6/2720) Again, the Service's own data show that only a 3.45 cents surcharge is needed in order to cover the costs of Standard (A) commercial parcels.

PARCEL SHIPPERS ASSOCIATION - QUESTIONNAIRE

It will be helpful in the presentation of PSA's position in the current rate proceeding at the Postal Rate Commission if we can present our members' reactions to and likely usage of new Standard B parcel products proposed by the Postal Service. The following questionnaire is relatively simple to complete and does not require extensive technical knowledge.

1. Please supply the total volume of Standard (A) parcels (less than one pound) you estimate you will ship during Calendar Year 1997 by:

USPS _____
 United Parcel Service _____
 Other _____

2. Please supply the total volume of Standard (B) parcels (one pound or more) you estimate you will ship during Calendar Year 1997 by:

USPS _____
 United Parcel Service _____
 Other _____

3. What percentage of your parcels delivered to residential addresses do you ship:

by USPS _____ %
 by UPS _____ %
 by other _____ %

4. What percentage of your parcels delivered to nonresidential addresses do you ship:

by USPS _____ %
 by UPS _____ %
 by other _____ %

5. If you ship both Standard (A) and Standard (B) parcels by USPS, do you commingle them in one mailing?

Yes _____ No _____

6. If you use UPS, do you have Special Contract Rates, rather than pay the regular published rates?

Yes _____ No _____

7. If you use UPS to ship your Standard (B) parcels, do you also use UPS to ship your Standard (A) parcels?

Yes _____ No _____

8. The Postal Service has proposed new parcel discounts for worksharing. Please indicate which discounts you would already qualify for, and if you would prepare your mail as required to earn the discounts for the following:

(a) Origin BMC Discount of 57¢ (parcels are entered at a BMC and presorted to Destination BMC):

i. Parcels currently qualify

Yes No

ii. Parcels do not currently qualify, but would prepare parcels to qualify

Yes No

(b) DBMC presort discount of 12¢ (parcels are not entered at the Origin BMC, but are presorted to Destination BMC):

i. Parcels currently qualify

Yes No

ii. Parcels do not currently qualify, but would prepare to qualify

Yes No

(c) DSCF Rates (Dropshipped to the Destination SCF and prepared so that at least 50 pieces are sorted to the 5 digit level):

i. Parcels currently qualify

Yes No

ii. Parcels do not currently qualify, but would prepare to qualify

Yes No

iii. Would use a consolidator in order to qualify

Yes No

(d) DDU Rates (Dropshipped to the Destination Delivery Unit, and prepared so that at least 50 pieces are sorted to the 5 digit level):

i. Parcels currently qualify

Yes No

ii. Parcels do not currently qualify, but would prepare to qualify

Yes No

iii. Would use a consolidator in order to qualify

Yes No

9. Delivery Confirmation Service:

a. I would use the manual service for a fee of 60¢

Yes No

b. I would use the electronic service for a fee of 25¢

Yes No

10. The USPS proposes to increase the maximum parcel size from 108" to 130". However, the rate would be at 70 lbs. irrespective of the actual weight. Also, no more than 10% of the mailing could exceed 108" in size.

(a) The percentage of my parcels that exceed 108" is _____%

(b) I would switch parcels to USPS from another carrier if this proposal were adopted

Yes No

11. Balloon parcel penalty. The USPS proposes to charge the 15 lb. rate to parcels in excess of 84" in size, even if the parcel weighs less than 15 pounds.

(a) I will be affected by this change

Yes No

(b) If affected, I will switch my business away from USPS to another carrier

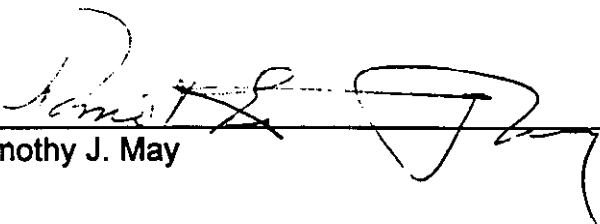
Yes No

NAME OF COMPANY

CONTACT AT COMPANY

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: December 29, 1997

1 CHAIRMAN GLEIMAN: Mr. Jellison, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, sir.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies to the reporter of the designated
11 written cross-examination of Witness Jellison, and direct
12 that it be accepted into evidence and transcribed into the
13 record at this point.

14 [Designation of Written
15 Cross-Examination of James V.
16 Jellison, PSA-T-1, was received
17 into evidence and transcribed into
18 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PARCEL SHIPPERS ASSOCIATION
WITNESS JAMES V. JELLISON
(PSA-T1)

Party

United Parcel Service

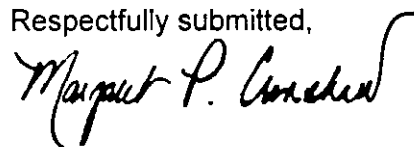
Interrogatories

UPS/PSA-T1-1, 4-9, 12-14, 16-18
USPS/PSA-T1-3, 8-9, 12, 17

United States Postal Service

UPS/PSA-T1-2-3
USPS/PSA-T1-1-46

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
PARCEL SHIPPERS ASSOCIATION
WITNESS JAMES V. JELLISON (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/PSA-T1-1
UPS/PSA-T1-2
UPS/PSA-T1-3
UPS/PSA-T1-4
UPS/PSA-T1-5
UPS/PSA-T1-6
UPS/PSA-T1-7
UPS/PSA-T1-8
UPS/PSA-T1-9
UPS/PSA-T1-12
UPS/PSA-T1-13
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USPS/PSA-T1-1
USPS/PSA-T1-2
USPS/PSA-T1-3
USPS/PSA-T1-4
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USPS/PSA-T1-6
USPS/PSA-T1-7
USPS/PSA-T1-8
USPS/PSA-T1-9
USPS/PSA-T1-10
USPS/PSA-T1-11

Designating Parties:

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Interrogatory:

USPS/PSA-T1-42

USPS/PSA-T1-43

USPS/PSA-T1-44

USPS/PSA-T1-45

USPS/PSA-T1-46

Designating Parties:

USPS

USPS

USPS

USPS

USPS

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-1. Please refer to page 19 of your testimony. In the first full paragraph on that page, you note that your analysis of the impact of your pricing proposal makes "several unrealistic assumptions," such as the unresponsiveness of volume to price changes.

(a) Assume the Commission adopted your recommended approach and kept Parcel Post rates constant. Do you agree that the lower price, relative to the prices proposed by the Postal Service, would result in higher Parcel Post volume than currently estimated by the Postal Service.

(b) If your answer to part (a) is "yes," do you agree that the higher volume would result in costs higher than those shown on line 4 of Table 1? If not, please explain.

RESPONSE.

(a) Yes.

(b) Yes.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-2. Please refer to line 11 of the first paragraph on page 2 of your direct testimony. Please define "market dominance" as you use the term there.

RESPONSE. My use of the term "market dominance" simply reflects the fact that there are a lack of competitive forces within the residential delivery market that would have an influence on UPS' moderation of its price increases and its service offerings. Examples I used were the change in policies on rural delivery; the arbitrary dictation of delivery prices for delivery to a commercial enterprise located primarily in a residential area; and the frequency and percentage increases of rates to residential deliveries. Our members strongly believe that UPS can and does make changes without consideration of their impact on their customers in part because of the lack of competition and lack of regulation of UPS.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-3. Please refer to the last sentence of the first paragraph on page 2 of your direct testimony.

- (a) Please define "market dominance" as you use the term there.
- (b) What factors, in your opinion, result in the "long term" being different from the "short term"?
- (c) Is it your opinion that only the "short term" is competitively significant? If your answer is "yes," please explain why. If the answer is "no," please explain why not.

RESPONSE.

- (a) I define "market dominance" here just as it was defined in response to UPS/PSA-T1-2.
- (b) The principal factor that differentiates the long-term and short-term results is the dearth of companies that possess an in-place delivery structure that could provide universal domestic delivery to residential customers. The long-term defines the time in which one could reasonably expect another entity to be able to match the residential delivery structure of UPS and USPS.
- (c) Yes, because I am convinced it would take a considerable length of time for another entity, first, to make a commitment to residential delivery and, second, actually to be able to replicate the delivery structure of UPS and USPS that is now in place.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-1-4. Please refer to page 3 of your testimony. Please confirm that the following calculations are correct:

Parcel Shippers Association Survey
Volume Figures
(in thousands of parcels and percent)

	<u>Postal Service</u>	<u>UPS</u>	<u>Total</u>	<u>Percent Total</u>
Standard A	348,160	8,405	357,105	97.6
Standard B	<u>124.522</u>	<u>127.596</u>	<u>252.118</u>	49.4
Total	473,132	136,001	609,133	77.7

RESPONSE. Confirmed.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-5. Please refer to page 3 of your testimony, at the third bullet point.

What carrier delivered the 58 million pieces of bound printed matter shipped by your members? If more than one carrier handled the bound printed matter, how much did each carrier handle?

RESPONSE. All but a negligible amount was delivered by USPS. Some slight percentage was delivered by United Parcel Service.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-6. On page 1 of your testimony, in the last paragraph you state that PSA's members use, in addition to the Standard (A) and Standard (B) mail offerings of the Postal Service, the Priority Mail and Express Mail services of the Postal Service.

(a) Why did the survey discussed in your testimony not inquire about Priority Mail and Express mail services?

(b) How many packages do PSA members ship by Priority Mail or Express Mail?

RESPONSE:

(a) The survey did not inquire about express services because the focus of the concern of our Association is Standard (B) parcels and Standard (A) parcels.

(b) Our survey does not disclose this information.

(c) Our survey data does not allow a response to this question. We do know, however, that some of our members use UPS, FedEx, RPA, DHL, Airborne, and other express carriers.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-7. Please refer to page 4 of your testimony, at the first bullet point.

(a) Please confirm that, of the members who responded to your survey, about 68.6 percent use both the Postal Service and UPS to ship their packages.

(b) On a volume weighted basis, what percent of PSA member shipments are made by companies that use both the Postal Service and UPS?

RESPONSE.

(a) Confirmed.

(b) 89.6%.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-8. Please refer to page 4 of your testimony, at the third bullet point.

(a) Which carriers are used by the 16 members who reported shipping parcels by a carrier other than the Postal Service and UPS?

(b) To what do you attribute the increase in utilization of carriers other than UPS and the Postal Service.

(c) For these 16 members, how much volume is shipped through carriers other than UPS and the Postal Service?

RESPONSE.

(a) We do not know the names of the companies.

(b) Frankly, I can only guess at the reasons for increased utilization of other carriers; while it has increased, it nevertheless except, for 2 respondents, is an insignificant number of parcels compared to the total shipped by respondents. PSA witness Mullin, of Avon, has identified the fact that Avon uses a large number of carriers other than the USPS and UPS. I am sure if he were to be asked he would explain the price and service considerations that have dictated his choice of other carriers.

(c) My testimony on page 4 incorrectly reports the volume of the 16 respondents shipped by carriers other than USPS and UPS. The correct volume is 25,343,000, which represents 9.1% of the total volume of over one pound parcels. An errata will be filed to make these corrections.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-9. Please refer to page 7 of your testimony, at the second full paragraph.

You state that the Postal Service has a 40 percent market share. Please confirm that this is 40 percent of Standard (B) volume.

RESPONSE. My testimony at page 7 to which you refer incorrectly reports a 49% share. That percentage fails to take account of the parcels shipped by carriers other than UPS and USPS. Including those parcels, then it would be accurate to state that USPS had a 44.8% share of the Standard (B) parcel market represented by our members who responded to the survey. An errata will be filed correcting this testimony.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-12. Please identify all members of the Parcel Shippers Association.

RESPONSE. The membership of the Parcel Shippers Association may be found on the
PSA Home Page at www.parcelshippers.org.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-13.

(a) Do any of the members of the Parcel Shippers Association use CTC? If so, please list how many members of the Association use CTC and the approximate number of parcels shipped through CTC during 1997.

(c) Do any of the members of the Parcel Shippers Association use the services or consolidators or drop-shippers other than CTC? If so, identify all such consolidators or drop-shippers, the number of Association members who use consolidators or drop-shippers other than CTC, and the approximate volume of parcels sent through such consolidators or drop-shippers during 1997.

RESPONSE.

(a) I do not know how many members use CTC; however, I do know that some use CTC although I cannot approximate the number of parcels they shipped through CTC during 1997.

(b) Yes. I am unable to identify all such consolidators or drop-shippers; nor do I know the number of Association members who would use them; nor their approximate volume.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-14. On page 3 of your testimony, you state that "Members shipped 124,522,000 Standard (B) Parcel Post by USPS. . . ." Did you mean to use the word "Respondents" rather than the word "Members" in making that statement?

RESPONSE. Yes.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-16. Please refer to that portion of page 5 of your testimony which indicates that 2 respondents "already use consolidators." Identify the consolidators used by those 2 respondents and the total volume (for both combined) sent by the consolidators used by these two respondents during 1997.

RESPONSE. I do not have the permission of the respondents to divulge their identities. Moreover, the survey information does not disclose the volume of parcels that they shipped with consolidators as distinct from shipping directly with the Postal Service or UPS. Their volumes were not excluded from the total volume counts; rather, it was the reported volume of CTC that was excluded on the assumption that it would be a double count of volumes otherwise reported by respondents.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-17. Please refer to the discussion of the DDU discount on page 6 of your testimony. You there indicate that of 30 respondents, 4 currently qualify for the DDU rates, 7 who do not currently qualify would "do the work to become eligible," and 12 "would be willing to use a consolidator," for a total of 23 respondents. Please reconcile this total with your statement that of the 30 respondents, 21 "either currently qualify or would do whatever is necessary, including using a consolidator to qualify."

RESPONSE. The confusion in the numbers arises over the fact that of the 12 reported willing to use a consolidator 3 of those also state that they would be willing to do the necessary preparation. Correctly stated the responses should be totaled as follows: of the 30 respondents 4 already qualify; 10 will do nothing to qualify including using a consolidator; of the other 16 respondents, 7 will do the necessary preparation, and of the 19 who would not do the necessary preparation 9 of those would use a consolidator. Thus, out of a total of 30 correspondents, 20, or 2/3rds, either qualify or would do whatever is necessary including using a consolidator in order to qualify. My testimony incorrectly reports that 21 rather than 20 would do so. An errata will be filed to make that correction to page 6 of my testimony.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-18. Please refer to footnote 1 on page 7 of your testimony and the accompanying test.

(a) Is CTC a member of the Parcel Shippers Association, and, if so, did it respond to the survey.

(b) Provide the total amount of "the parcel post volumes reported by CTC" which were excluded from the "current total volume of parcel post shipped by USPS [of] 124,500,000."

(c) On page 5 of your testimony, you indicate that two respondents "already use consolidators." Please provide the volume which those two respondents reported as sending by parcel post.

RESPONSE.

(a) Yes. CTC is a member and they did respond to the survey.

(b) CTC has not granted permission to divulge the data it reported in the survey.

(c) I do not have the permission of the respondents to report that information because it could lead to their identification.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-1. Please confirm that, of the survey responses described at pages 3 and 4 of your testimony, responses were received from 30 companies who ship Standard B parcel post-type parcels. If not confirmed, please explain.

RESPONSE. Confirmed.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-2. How many of the 30 companies who responded to your survey and ship Standard B parcel post-type parcels also responded to the survey filed as library reference H-163?

RESPONSE. While it seems likely that there would be some commonalty, I have no knowledge of the identities of companies that participated in the USPS survey.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-3. Please confirm that when you refer to the 'DBMC Discount' at page 5, you are referring to the BMC presort discount and not to the DBMC rate category.

RESPONSE. Confirmed.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-4. Please confirm that when you refer to the "DSC Discount" at page 5, you are referring to the DSCF dropship discount.

RESPONSE. Confirmed.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-5. Please refer to your testimony at page 5 where you state that "there were two (2) respondents who already use consolidators and therefore they were not counted as respondents to this series of questions." Please explain why the responses of these companies were excluded only from this series of questions.

RESPONSE. Since they already use consolidators, they did not respond to this series of questions.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-6. Please refer to your testimony at page 4 where you state that 17 of the 26 who responded to the question regarding whether they were currently eligible for OBMC indicated that they are eligible. You then continue with a discussion "of the ten (10) who responded that they were not eligible." Were there 27 respondents to the question, or was one response double-counted? Please explain.

RESPONSE. The testimony is in error and the answer to your question is, yes, there were 27 rather than 26 respondents to the question. An errata will be filed.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-7. Please refer to your testimony at page 5 where you discuss 26 respondents who reported that they do not currently qualify for the DSCF discount. You then continue by stating that the responses from two companies currently using consolidators were not counted as respondents to this series of questions. You then indicate that 20 of the 27 respondents would "do what is necessary" to qualify for the DSCF discount. Of the 30 respondents, subtracting 2 for those using consolidators, only 27 can be accounted for. What was the other response?

RESPONSE. Again, the number of respondents is incorrectly reported in the testimony as 20 out of 27. In fact, it should be 20 out of 26 respondents. There were 30 respondents who reported, not including those using consolidators who did not report; 4 of those already qualified, leaving 26 who did not. Of that 26, 20 reported that they would "do what is necessary" to qualify. That 20 included 11 who would do the preparation, 19 who would consolidate; and of those 19, 10 would also do preparation to qualify. Thus, 20 of the 26 not qualifying would "do what is necessary." An errata will be filed.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-8. Please refer to your testimony at page 5 where you state that 74 percent of respondents to the question regarding the DSCF discount indicated that they would "do what is necessary, including using a consolidator, in order to earn the Destination Sectional Center discount."

(a) Are you aware of consolidators offering the ability to consolidate, prepare and dropship to the DSCF, including performing the required sort to five digit ZIP Codes?

(b) Is it your interpretation, from the responses to your survey or from other conversations with your members, that the respondents perceive that consolidation services will be available to enable them to qualify for the DSCF discount?

RESPONSE. Your question references my testimony at page 5 where I state that 74 percent of respondents would "do what is necessary. . . ." With the change I indicated in response to question 7, that will also change the percentage from 74 percent to 77 percent. My specific responses to your two-part question are:

(a) Yes.

(b) Yes.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-9. For the responses described at pages 4 through 7 of your testimony, please provide volume figures to match with each of the types of responses listed (e.g., 65 percent of respondents indicated that they are currently eligible for the OBMC discount, accounting for X million Parcel Post pieces).

RESPONSE. We do not have, nor did we obtain in the responses to the survey, the volume figures as you request them. You cite as an example that you would like to know how many parcel post pieces were accounted for by those respondents who had indicated they are currently eligible for the OBMC discount. Our respondents did not report how many of their parcels were currently eligible, merely responding whether they did have parcels that were currently eligible. We are able to tell you, for example, that of those respondents who indicated that they have parcels that are currently eligible, the total parcels reported by those respondents are 82,062,000 Standard (B) parcels shipped by USPS and 79,502,000 Standard (B) type parcels shipped by UPS. That does not mean, however, that total volume of parcels reported are currently eligible for BMC. Likewise, I can report to you that of those respondents who indicated they would do the preparation required to become eligible, those respondents shipped 44,039,000 parcels by USPS, and 3,110,000 Standard (B) type parcels by UPS. The respondents' answers clearly suggest that their total volume of parcels are not eligible; for example, several respondents who had indicated they have parcels that are currently eligible, also reported that they would do the additional preparation required in order to become eligible. We have no way to estimate what portion of total volume of

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

parcels reported falls into any of the categories discussed on pages 4 through 7 of my testimony.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-10. For the responses described at pages 4 through 7 of your testimony, do you have any indication of the amount of time required for mailers to make arrangements to adopt or accommodate the new discounts, surcharges or service?

RESPONSE. No.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-11. When reporting the responses to the DDU discount question, why did you not exclude the two respondents who were excluded from the DSCF question because of their use of consolidators?

RESPONSE. They were excluded.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-12. Please refer to your testimony at page 6 where you state that 12 of the respondents to the question regarding the DDU discount indicated that they would "be willing to use a consolidator" in order to earn the DDU discount.

(a) Are you aware of consolidators offering the ability to consolidate, prepare and dropship to the DDU? If so, please provide the information available to you from such companies.

(b) Is it your interpretation, from the responses to your survey or from other conversations with your members, that the respondents perceive that consolidation services will be available to enable them to qualify for the DDU discount?

RESPONSE.

(a) I do not have any detailed information but just a general understanding that consolidators will, given adequate volumes, do the necessary consolidation preparation and dropshipping to the DDU.

(b) Yes.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-13. Were the respondents to your survey fully apprised of the discounts and the underlying mail preparation assumptions in the Postal Service's proposal at the time that they responded to your survey?

RESPONSE. With few exceptions the respondents to the survey were very sophisticated mailers and very active members of the Parcel Shippers Association. Given those facts, I am confident that they read and adequately understood the details of the USPS proposals and the conditions to those proposals from the numerous written and oral presentations made by the Association to the membership.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-14. Please refer to your testimony at pages 6 and 7 where you discuss the responses to the question regarding the expansion of the size limit for parcels. Please clarify your interpretation of the "parcel business" that the 13 respondents indicated would switch to the Postal Service. Is it your understanding that these 13 respondents would switch to the Postal Service: all of their parcel business; some additional volume that is not oversized, or only their oversized pieces?

RESPONSE. Only their oversized pieces.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-15. Please refer to your testimony at page 7 where you discuss the responses to question regarding the surcharge for balloon parcels. Please clarify your interpretation of the "business" that the 5 respondents indicated they would switch away from the USPS.

RESPONSE. Only the pieces subject to the surcharge.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-16. Please refer to your testimony at page 7 where you discuss the decline in dominance of UPS as the carrier of choice among your respondents.

(a) Was your survey conducted before, after, or during the UPS strike?

(b) Is it possible that firms who ship primarily with the Postal Service, and thus have a greater stake in the outcome of these proceedings, were more motivated to respond to your survey? Please explain fully.

(c) What approximate volume or share of volume associated with the respondents to your survey originates in residential areas?

RESPONSE.

(a) The survey was conducted after the UPS strike.

(b) It is possible but not likely; as many UPS users as USPS users responded to the survey.

(c) That information is not available from the responses to the survey.

**RESPONSES OF THE PARCEL SHIPPERS ASSOCIATION
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-17. Please refer to your testimony at page 8 where you state that "not all those parcels are barcoded with a code that can be read by an OCR."

(a) Did you mean to refer to the barcode reader on a parcel sorting machine instead of "an OCR," and optical character reader?

(b) Please state the basis for the statement reference above, as corrected by your response to part (a), as appropriate.

(c) Please indicate your awareness that the survey question asked "Do you currently apply the official USPS barcode to any of your outgoing mail?"

(d) Is it your testimony that the "official USPS barcodes" being applied by respondents who indicated in the Postal Service's survey that they were currently barcoding cannot be read by the Postal Service's parcel barcode readers?

(e) Please confirm that you did not survey your membership with regard to their barcoding behavior, either current or intended.

RESPONSE.

(a) Yes, I did mean the barcode reader on a parcel sorting machine, which I believe is an OCR.

(b) What my testimony meant was simply that there has been no requirement for a barcode; therefore, any attempts at enforcement of any specifications of the proper barcode were nonexistent.

(c) Yes, I am aware.

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(d) It is my testimony that, since there was no requirement for package users to use barcodes, there exists no effective way to be sure the barcode meets all the specifications required.

(e) Confirmed as to any questionnaire conducted for the current rate proceedings.

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USPS/PSA-T1-18. Please refer to your testimony at page 10 where you state that "the required containerization results in a loss of cube utilization in mailer trucks as opposed to sacking."

(a) Has Parcel Shippers Association performed any survey to ascertain member practices regarding the prevalence of sacking relative to bedloading parcels or containerization either in gaylords or on pallets? If so, please describe the results of such study. If not, please provide the basis for your statement.

(b) Are you aware of any study demonstrating the tradeoff faced by shippers when determining the optimal containerization methods? If so, please describe the results of such study.

(c) Are you aware of any study demonstrating the cube utilization patterns exhibited by your members in their use of transportation? If so, please provide the results of such study.

RESPONSE.

(a) No, we have conducted no such surveys. The basis for this statement is the constant conversations we carry on with our members who continually express their concerns that loss of cube in hired transportation occurs when they cannot have complete flexibility to load out maximum loads by bedloading, or any other means available to them.

(b) PSA has conducted no such studies but I am aware that USPS has, although I cannot quote the findings. Also, individual members conduct such analyses

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as part of their daily transportation management functions. They do not share the details of these analyses with PSA.

(c) No.

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USPS/PSA-T1-19. Please refer to your testimony at page 12 where you state, with regard to the use of barcodes on parcels, "the obvious opportunities are equally applicable to both" Standard B and Standard A parcels

(a) Is it your understanding that barcodes are of value to the Postal Service for parcels sorted to the 5-digit level?

(b) Is it your understanding that barcodes are of value to the Postal Service for parcels entered downstream from the destination bulk mail center?

RESPONSE.

(a) No.

(b) If there is no barcode reading capability beyond the BMC level, it is my understanding that the Service cannot do a 5-digit sort by barcode reading machines for mail entered downstream from the BMC.

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USPS/PSA-T1-20. Please refer to your testimony at page 15 where you state that "this increase in size limit will increase volumes mailers will have available to fill out otherwise marginal vans for direct shipments and drops to points deeper in the USPS operational chain."

(a) Is it your testimony that the ability to add the oversized parcels will increase the share of parcels dropshipped deeper into the postal system? Please explain fully.

(b) Is it your testimony that, in the absence of the ability to include the oversized parcels, the mailers would not send an otherwise "marginal" van? Please explain fully.

(c) Is it your testimony that these mailers would not have additional volume that is not oversized to include in the shipment to fill the transportation cube? Please explain fully.

RESPONSE.

(a) Yes; our members inform me that, in their determination as to whether they have sufficient volume to warrant a van to the destination post office facility on an economic basis, they often have vans that are close to marginally justified or unjustified. In such instances, the availability of a new volume of parcels to consider would allow more vans to become economically justified.

(b) A marginal van implies some other judgment besides economics is given heavier weight in the decision process. Depending upon what side of the margin the subject vans happen to fall, this additional volume could mean the difference between sending that direct van or not.

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(c) Yes; that is the assumption in the examples I have referenced in my testimony.

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USPS/PSA-T1-21. Please refer to your testimony at page 16 where you discuss proposed rate increases of 20 to 30 percent, the target cost coverage and the attribution of Alaska air costs. Is it your testimony that the target cost coverage and the desire to cover Alaska air costs are the only reasons that any Parcel Post rate cells are receiving rate increases of 20 to 30 percent? If not, please explain.

RESPONSE. It is perfectly clear that, in the absence of the attribution of the Alaska air costs to Parcel Post, no rate cells would be required to sustain 20 to 30 percent increases. We are well aware that because of transportation costs and other factors, there will not be uniform rate increases in all rate cells in all rate categories. Moreover, given the fact that, absent the attribution of the Alaska air cost to Parcel Post, Parcel Post already with no rate increases at all would meet Dr. O'Hara's 104 percent cost coverage, that further reaffirms our conviction that there would not be 20 to 30 percent rate increases in the absence of the Alaska attribution.

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USPS/PSA-T1-22.

(a) Please confirm that at pages 16 and 17 of your testimony, you appear to be agreeing with Dr. O'Hara that the proper cost coverage target for Parcel Post is 104 percent. If not confirmed, please explain.

(b) Is it your testimony that the other cost coverage targets set by Dr. O'Hara are similarly appropriate? If not, please explain.

(c) Please confirm that the cost coverage for other classes and subclasses of mail would need to be adjusted in the event that Alaska air cost were removed from the cost base for Parcel Post. If not confirmed, please explain.

RESPONSE.

(a) Confirmed.

(b) I have not made any judgments about the coverage for other subclasses.

(c) Not confirmed. It is finally evident that the Postal Service has overstated its revenue requirement by at least the amount represented by both Alaska air costs and the proposed Standard (A) surcharge. There is thus no need to raise anyone else's rates in order to make up for the revenue represented by the recovery of Alaska air costs from Parcel Post and by the revenues represented by the surcharge proposed for Standard (A) parcels.

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USPS/PSA-T1-23. Please refer to your testimony at pages 19-20 where you calculate a cost coverage of 109 percent, based on the adjustment of Alaska air costs and on the application to parcel post of the average overall rate increase of 4 percent. Is it your testimony that in these circumstances, a cost coverage of 109 percent is appropriate? Or is it your testimony that the average rate increase for parcel post should be less than the overall average rate increase. Please explain.

RESPONSE. It is Dr. O'Hara's testimony that 109 percent coverage is excessive. It is my testimony that an average increase in excess of 4 percent for parcel post is excessive.

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USPS/PSA-T1-24. Please refer to your testimony at page 20 where you refer to the "so-called 'victims' of this inequity."

(a) Please identify the "so-called 'victims'" to which you refer.

(b) Is it your testimony that the parties to which you refer in your response to part a are indifferent to decreases in rates, or reductions in the sizes of increases in rates to which they might experience as a result of correction of "this inequity"? Please explain fully.

RESPONSE.

(a) The non-parcel mail in Standard "A."

(b) I can only tell you that our members are predominantly Standard "A" letter and catalog mailers, and they fully understand the implications of their absolute opposition to the Standard "A" surcharge.

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USPS/PSA-T1-25. Please refer to your testimony at page 21 where you state that you "could not find a single member that mails Standard A parcels at the enhanced carrier route rate!" Please confirm that your members do not constitute the entirety of mailers shipping items, including merchandise samples, that might be categorized as something other than "letters" or "flats" by the Postal Service.

RESPONSE. Confirmed; but they do represent a broad cross-section of almost every other kind of product supplier.

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USPS/PSA-T1-26. Please refer to your testimony at page 21 where you refer to the ECR cost differential of 20 cents as measured in the Parcel Classification Case and 40 cents as measured in this case. Please confirm that the proposed surcharge of 10 cents is substantially less than either 20 or 40 cents.

RESPONSE. Yes; it is of the same order of magnitude of difference as the change that USPS has reported in ECR costs between their filed testimony in February of 1997 and their filed testimony in July of 1997.

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USPS/PSA-T1-27. Please refer to the second paragraph on page 21 of your testimony.

(a) Please confirm that you have examined the testimony of witness Crum. If you cannot confirm, please provide the basis for your statement in this paragraph.

(b) If your response to part (a) is affirmative, please confirm that Table 3 in Exhibit K of witness Crum's testimony shows unit cost differences between Standard Mail (A) parcels and flats of 23.41 cents in Mail Processing, 8.18 cents in City Carriers, 1.46 cents in Vehicle Service Drivers, 0.86 cents in Rural Carriers, and 6.37 cents in Transportation. If you cannot confirm, please explain fully?

(c) Please confirm that Table 3 in Exhibit K of witness Crum's testimony shows that the density of Standard Mail (A) parcels is 39 percent of the density of Standard Mail (A) flats and that cubic volume is a widely recognized cost driver (see, e.g., USPS-T-37, page 13, lines 17-23 and Tr. 5/2369 (lines 24-25), 2370 (line 1)). If you cannot confirm, please explain fully.

RESPONSE.

(a) Confirmed.

(b) Table 3 of Exhibit K of witness Crum's testimony does not show unit cost differences by shape for the denominated cost categories on a per piece basis. However, that Table does show the total attributable costs per piece and one can derive the cost difference between flats and parcels by offsetting one against the other. Table 3 shows total parcel attributable costs of 51.6 cents and for flats of 11.3 cents,

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producing a cost difference of 40.3 cents. The cost differences enumerated in your question sum to a total of 40.28 cents; therefore, while I have not performed all the mathematical calculations, I do not disagree with the cost differences itemized.

(c) Table 3 of Exhibit K shows the pounds per cubic feet for flats and parcels to be, respectively, 20.7 and 8.1, the latter figure being 39% of the former. I can confirm that witness Crum has testified that cubic volume is a cost driver; your reference to my testimony does not deny that cube is a cost driver, but rather my testimony states that witness Crum's study failed to establish that it was cube or "shape" that caused the cost differences shown in parcels and flats in his study.; moreover, "cube" and "shape" are not synonyms for each other and do not necessarily have equal cost effects.

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USPS/PSA/T1-28.

(a) Please refer to page 24 of your testimony and confirm that First Class Mail can be entered single piece in any one of the 312,000 collection boxes whereas Bulk Standard Mail (A) is inducted by trained mail acceptance clerks at specified locations. If you cannot confirm, please explain fully.

(b) Do you believe it makes sense to have identical rate structures and rules for two mail classes with such differing acceptance criteria? Please explain.

(c) Are you proposing that these two mail classes have identical rate structures with regard to non-letter, non-flat pieces?

RESPONSE.

(a) I can confirm that single piece First Class Mail can be entered at collection boxes whereas Bulk Standard Mail (A) must be received by acceptance clerks at specified locations, although the degree of "training" they may have is a matter of conjecture.

(b) I did not propose that there would be an identical rate structure or acceptance rules for First Class parcels and Standard (A) parcels. Rather, I merely raised the question why the Postal Service does not propose a surcharge on First Class parcels to reflect the higher costs they are alleged to incur as compared to First Class flats.

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(c) No.

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USPS/PSA-T1-29. On page 24 of your testimony you state" This is certainly a significant enough segment of mail volume, 758.4 million pieces, to warrant discrete treatment."

(a) Please confirm that the figure in this passage is your estimate of pieces subject to the nonstandard surcharge.

(b) Is it your testimony that these pieces (whatever the volume) do not receive discrete rate treatment? Please explain.

RESPONSE.

(a) Please see page 24 of my revised testimony filed January 28, 1998.

(b) It was my testimony that non-standard flats and non-standard parcels do not receive discrete rate treatment despite their cost differences.

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USPS/PSA-T1-30. Please refer to page 27 of your testimony.

(a) Please confirm that you have broken out "regular for-profit" costs from the other three subclasses of Standard Mail (A), but you have made the Exhibit K, Table 7 adjustment based on all four subclasses of Standard Mail (A). If you cannot confirm, please explain fully the methodology you have used to derive your calculations.

(b) If you confirm part (a), please also confirm that properly making this adjustment by using only the "regular for-profit" volumes changes the figure from 7.3 cents to 1.2 cents and the adjusted parcel/flat cost difference for commercial regular from 25.8 cents to 31.9.

RESPONSE.

(a) Confirmed.

(b) Not confirmed; limiting witness Crum's adjustment to the "regular for-profit" volumes changes the figure from 7.3 cents to 1.44 cents, according to my calculations. Thus, the adjusted parcel/flat cost difference for commercial regular would be increased from the 25.8 cents in my testimony to 31.7 cents. This would be the adjusted cost difference not taking into account the cost reductions for parcels proposed by RIAA, et al witness Andrew (RIAA, et al-T-1) due to his adjustments in volume variability and transportation costs based on densities. PSA supports those proposed adjustments, and, with their inclusion, the parcel/flat cost difference would remain approximately that which I calculated. An errata to Mr. Jellison's testimony will be filed to incorporate the correction in Mr. Crum's adjustment.

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USPS/PSA-T1-31. Please supply all studies you have completed showing that weight itself has any significant impact on Standard Mail (A) parcel costs.

RESPONSE. I have performed no independent studies on the affect of weight on parcel costs. Given the fact that the Postal Service proposes separate and higher rates all the way from 1 to 70 pounds for parcels in the Standard (B) parcel schedule, one must assume that the Postal Service has its own data and studies which do demonstrate that weight has an impact on cost. Moreover, the Postal Service's own rate design for Standard (A) imposes higher rates on weightier matter within the subclass, and Postal Service attributable costs show that such matter does cost more than lighter weight matter.

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USPS/PSA-T1-32. Please refer to page 27 of your testimony. Confirm that you have adjusted costs based on the varying presort and dropship characteristics of parcels versus flats, and then you compare these numbers to revenues that you have not adjusted based on the varying dropship characteristics of parcels versus flats. If you cannot confirm, please explain fully. If you can confirm, please provide the rationale for this comparison of unadjusted revenues to adjusted costs.

RESPONSE. I can confirm that I have adopted the cost adjustment used by the Postal Service to adjust for the varying piece sort and dropship characteristics of parcels versus flats. Please see my response to USPS/PSA-T1-30(b). The revenues per piece for flats and parcels that I have used in my testimony are the actual revenues the Postal Service data shows were received for flats and parcels. The Postal Service adjustment for cost is to reflect the actual fact that flats actually bypassed certain handling functions more so on average than did parcels, and therefore to reflect the true cost differences between the two the adjustment was necessary. If the question means to imply that the parcel revenues derived should be reduced to reflect the revenues that would actually have been received had parcels bypassed postal handling functions to the same degree as did flats, there is no testimony as to why such an adjustment should be made, nor is there any data available from which such an adjustment could be made of which I am aware. Also, please see the testimony of RIAA witness Andrew (RIAA, et al.-T-1) at page 7.

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USPS/PSA-T1-33. In the last sentence on page 27 of your testimony, you compare percentages of pieces that are being, and are not being, singled out for surcharge in Standard Mail (A) and in First-Class Mail.

(a) Please derive the percentage of Standard Mail (A) pieces which you believe would be surcharged by virtue of the residual shape surcharge.

(b) Please derive the percentage of First-Class Mail parcels (as a percent of total FCM) which are NOT being surcharged as referred to in the last sentence of your testimony on page 24.

RESPONSE.

(a) and (b) Please see revised page 24 of my testimony, filed January 28, 1998. I do not believe I am required to perform mathematical calculations when the numbers to be calculated are not provided. If the Postal Service wishes to ask me to confirm their own calculations I would be pleased to do so.

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USPS/PSA-T1-34. Please see your testimony at page 3, lines 12-14.

(a) Confirm that the survey of your membership suggests that the Postal Service carries 97.6 percent of the respondents' pieces that would qualify as Standard Mail (A) parcels. If you cannot confirm, what is the correct estimate of the percent of pieces?

(b) Would you describe this portion of the parcel delivery market (pieces less than one pound) as being dominated by one carrier? If not, what percentage would one carrier have to carry in order for you to declare that part of the market dominated by one carrier?

(c) What is the average rate paid by your members for parcels sent via Standard Mail (A)?

(d) What is the current maximum rate possible for a Standard Mail (A) parcel?

(e) What is the average rate paid by the 2.4 percent of the parcels which are shipped via UPS?

(f) If these parcels are delivered to a residence, are they subject to the residential surcharge imposed by UPS?

RESPONSE.

(a) Confirmed.

(b) So far as the market is defined by those who responded to the survey, then surely USPS is the dominant carrier. We do not have sufficient data to know

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whether USPS carries more or fewer under one pound parcels than, for example, United Parcel Service. Thus we do not know whether one carrier dominates the actual under one pound market. In our view "dominance" would reflect market shares of the same magnitude that United Parcel Service has of the one pound and over market.

- (c) I do not know.
- (d) The current maximum rate possible would be 84.3 cents per piece.
- (e) We have no information on what rates are actually paid for the shipment of parcels of any weight by UPS. The published UPS tariff is a meaningless document.
- (f) No.

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USPS/PSAT1-35. Please see your testimony at page 20, line 16-20. Is it your testimony that the Commission's Recommended Decision and Vice Chairman LeBlanc's Dissenting Opinion included findings that were not supported by "evidence of record?"

RESPONSE. It is most assuredly my testimony that the Commission decision referenced was unsupported by "evidence of record." The findings were based upon a Library Reference Study that was never authenticated, vouched for, identified, nor placed into evidence. Parcel Shippers Association argued to the Commission that, because it was not part of the record, that study could not be relied upon as evidence to support Commission findings. In the absence of the study, there was absolutely no evidence in the record to support the Commission's findings. United Parcel Service witnesses who relied on that study were unable to state that they could in any way vouch for the accuracy or the methodology employed in the study; rather they could only testify that the study showed certain results, not that they agreed with those results because they had independently verified them. Thus, the testimony of the UPS witnesses on that point is mere hearsay and was entitled to no weight.

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USPS/PSA-T1-36. Please see your testimony at page 21, lines 6-10, where you state that you do not know where ECR parcel volume comes from or how many ECR parcels there are. Is it your contention that there is no ECR parcel (non-letter, non-flat) volume? If so, please explain.

RESPONSE. Since the Postal Service reports ECR volumes we have to assume that they do exist. My testimony, rather, was that despite the large number of members in our Association none could identify who might be the users of such a service.

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USPS/PSA-T1-37. Please see your testimony at page 23, lines 3-5, where you state there were "hundreds of millions of parcels that weighed more than 8 ounces." Were there also hundreds of millions of parcels that weighed less than 8 ounces. Please explain any negative response.

RESPONSE. Employing the same logic the answer would be yes.

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USPS/PSA-T1-38. Please see your testimony at page 23, lines 9-11.

(a) Do you think that it is possible that Standard Mail (a) parcels will have a higher implicit cost coverage than Standard Mail (A) flats with implementation of a residual shape surcharge? If so, please state what those coverages might be and show their derivation.

(b) Is it your understanding that Standard Mail (A) Regular letters have a higher implicit cost coverage than Standard Mail (A) Regular nonletters. If not, what is your understanding of the relative implicit costs coverages.

(c) Is it your contention that parcels should have a lower implicit coverage than either flats or letters? If so, why?

RESPONSE.

(a) Since the Postal Service itself has testified that it is unable to state what the cost coverages in the Test Year will be for either Standard (A) parcels or Standard (A) flats, it is certainly not possible for me to do so. However, if you ask my opinion, then my opinion is that it is possible that Standard Mail (A) parcels, bearing a residual shape surcharge, will have higher implicit cost coverage than Standard Mail (A) flats.

(b) If you mean to exclude Enhanced Carrier Route and Nonprofit from the category of Standard Mail (A) Regular, then I will respond in the affirmative. For the Base Year Regular Standard (A) letters, as defined, would have 186% cost coverage, and the non-letter category would have 109.4% cost coverage.

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(c) Yes. My reasons would be the same reasons that the Postal Service has for proposing lower implicit cost coverage for Standard (A) Regular flats than they do for Standard (A) Regular letters. In fact, the difference in cost coverage between letters and flats would be greater than the difference in the cost coverage between flats and letters, even without the proposed 10 cents surcharge. Specifically, our most important reason for advocating lower cost coverage is the rate shock that will ensue for many Standard (A) parcel mailers who, as the Postal Service's own testimony concedes, will be facing up to 50% price increases.

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USPS/PSA-T1-39. Please see your testimony at page 23, lines 11-14, where you state that the Postal Service agrees that it is possible that "the *average* cost difference between letters and nonletters was greater than the *average* cost difference between flats and residual shape pieces" (emphasis added).

(a) Please provide the citation for this passage and explain how it speaks to the *average* cost differences.

(b) Do you advocate a higher passthrough of the shape differential for letter and nonletters?

RESPONSE.

(a) The proper citation is the same one cited in my testimony, Tr. 6/2885, referencing USPS witness Moeller's responses to PSA interrogatories. The question asks how the citation speaks to the "average" cost differences. Unfortunately, the testimony contains a misprint on lines 12 and 13 of page 23; the word "average" appearing in those two lines should read "averaging." An errata will be filed.

(b) No; rather, my testimony raises the question why the Postal Service chose to address what could be a less serious problem of cross-subsidization by addressing the flat/parcel cost averaging.

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USPS/PSA-T1-40. Please refer to your testimony at page 27. Suppose that it was concluded that shape was the sole reason for the cost difference between flats and parcels, and that weight played no role. However, the difference in weight between the two shapes resulted in a revenue difference which exactly equaled the cost difference. Under those circumstances, would you oppose a shape-based surcharge?

RESPONSE. If I understand your hypothetical correctly, it postulates that the cost difference is covered by the higher revenues that are paid. Under those circumstances, I do not understand why there would be any need for a surcharge at all, since the more costly piece was contributing an equal amount of revenue, albeit for reasons unrelated to the causation of the cost.

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USPS/PSA-T1-41. Please see your testimony at page 30, final sentence. Is it your testimony that a surcharge is only warranted to assure cost coverage?

RESPONSE. It is my testimony that a type of mail which is neither recognized as a subclass or a rate category should not be visited with surcharges, particularly if it is covering its attributable costs. Practically every rate category and certainly every subclass consists of some types of mail which do not cover even their attributable costs. No such rigorous attempt has ever been made to ferret out every single one of such types of mail to be surcharged. It is contrary to the cost averaging of materials that are confined within a rate category or a subclass. It is particularly obnoxious to do so, however, when there is not conclusive evidence that the particular type of mail is not covering its attributable costs, and particularly where the surcharge could have the ruinous effect of imposing 40% to 50% rate increases on certain users.

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USPS/PSA-T1-42. Please see your testimony at page 28, lines 6-8. Please cite all current discounts or surcharges that are based on the "actual difference in the cost revenue relationships" between two groupings of mail.

RESPONSE. I have done no study and therefore am not aware of the extent to which current discounts or surcharges are based on the "actual difference in the cost revenue relationships." That was not the purport of the testimony that you cite. The testimony you cite was making the point that, whereas the Postal Service testimony made it sound as though they were being inordinately generous in only passing through one-quarter of the cost difference, in fact, they are proposing a surcharge greater than the revenue/cost gap between flats and parcels.

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USPS/PSA-T1-43. Please see your testimony at page 24, lines 4-6. Please show the derivation of the volume figures using the cited Exhibit USPS-43C.

RESPONSE. Please see the revised page 24 of my testimony filed January 28, 1998.

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USPS/PSA-T1-44. Please see your testimony at page 24, last full sentence.

(a) Is it your testimony that parcels in First-Class Mail are better candidates for a shape surcharge than are parcels in Standard Mail (A)?

(b) Regarding those FCM parcels that you deem more worthy for a surcharge; what would be the resulting percentage of total FCM pieces that would be surcharged?

RESPONSE.

(a) No.

(b) My testimony did not say that I deemed FCM parcels more worthy for a surcharge than Standard (A) parcels. Rather, my testimony raised the question why the Postal Service chose to surcharge one type of parcel and not the other. I do not know the resulting percentage of total First Class Mail pieces that would be surcharged.

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TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-45. Please see your testimony at page 23, last full sentence, where you refer to "a potentially more serious cross-subsidization issue between letters and nonletters." Do you acknowledge that there is a serious cross-subsidization issue between parcels and nonparcels, albeit less serious in your opinion.

RESPONSE. My testimony did not use the term "cross-subsidization" in the classic sense of a failure to cover attributable costs. Rather, it references the phenomenon that occurs when the disparate costs of two pieces of mail within the same rate category are averaged and rates are based upon that average. With that understanding I do acknowledge that there is an issue of cost averaging between parcels and nonparcels in Standard (A) nonletters. I do not acknowledge that it is serious; rather I suggested that the phenomenon might be a more serious issue with respect to the difference between letters and nonletters, and the averaging of those differences, than in the case of the differences between parcels and nonparcels. Again, I emphasize the fact that my testimony referred to the "possibility" of such an occurrence.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS JELLISON
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-46. Please see your testimony at page 28 where you state "we object to separating out parcels from flats in Regular Standard (A) when there is no existing sub-class or rate category distinction."

(a) Please confirm that there is "no existing sub-class or rate category" for DDU-entered parcels in parcel post.

(b) Do you support the discount for DDU-entered parcels in parcel post even though there is "no existing sub-class or rate category distinction"?

RESPONSE.

(a) While there is no existing rate category for DDU-entered parcels in parcel post, the Postal Service is proposing the creation of such a rate category in this case.

(b) Yes.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. Two parties, United Parcel Service, and the United
6 States Postal Service, have indicated they'd like to
7 cross-examine this witness. Does any other participant wish
8 to cross-examine the witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mr. McKeever, you can
11 begin when you're ready.

12 MR. McKEEVER: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. McKEEVER:

15 Q Mr. Jellison, are the members of the Parcel
16 Shippers Association mainly mail order companies?

17 A Yes, I would say so.

18 Q Do most of those members ship primarily to
19 residences?

20 A Most, but not all.

21 Q Mr. Jellison, could you please turn to page 6 of
22 your testimony?

23 A I have it.

24 Q There you address the delivery confirmation
25 service proposal. Do you see that?

1 A Yes, sir.

2 Q I take it that the numbers you report there
3 indicate that 24 of the 33 respondents or 73 percent would
4 use the electronic delivery confirmation service for their
5 Parcel Post pieces at a fee of 25 cents per transaction; is
6 that correct?

7 A I am not certain whether it was 25 cents, but yes,
8 if it were 25 cents --

9 Q Well, we're talking about Parcel Post pieces;
10 that's my point.

11 A Yes, we are talking about parcel post.

12 Q Okay. Let me represent to you that the proposed
13 fee of the Postal Service for electronic delivery
14 confirmation service is 25 cents. Now you state on page 1
15 of your testimony that Parcel Shippers Association members
16 also use Priority Mail; is that right?

17 A Correct.

18 Q Are you aware that if the Postal Service's
19 proposal is approved, Priority Mail users could use the
20 electronic delivery confirmation service for free, no
21 extra --

22 A I am aware; yes.

23 Q Okay. That means that a shipper who wanted to use
24 Electronic Delivery Service could either pay 25 cents more
25 and use Parcel Post service -- the Parcel Post rate plus 25

1 cents -- or use Priority Mail and get the Electronic
2 Delivery Confirmation Service for free, is that correct?

3 A Yes.

4 Q So wherever the difference between the Parcel Post
5 rate and the Priority Mail rate is less than 25 cents, it
6 would make sense for the shipper to use Priority Mail and
7 get the Priority Mail service and free delivery confirmation
8 instead of using Parcel Post, is that right?

9 A If delivery confirmation were important to him,
10 yes.

11 Q Okay. Mr. Jellison, do you agree that Federal
12 Express delivers to residences?

13 A I agree they do deliver to residences at a premium
14 price, yes, sir.

15 MR. McKEEVER: Mr. Chairman, if I may approach the
16 witness? I would like to show him a copy of an L.L. Bean
17 catalogue for Winter of 1998.

18 CHAIRMAN GLEIMAN: Certainly.

19 MR. McKEEVER: I have copies of the page that I
20 will be referring to in that catalogue available for the
21 bench and for counsel as well.

22 CHAIRMAN GLEIMAN: There is little doubt in my
23 mind that I already have a copy of it at home. I have a
24 copy of every catalogue at home, it seems.

25 BY MR. McKEEVER:

1 Q Mr. Jellison, if you could take a look, please, at
2 the order form page in that catalogue, let me know when you
3 have that in front of you.

4 A I do.

5 Q Now am I correct that that indicates that regular
6 Fed Ex shipping, and I am looking at the right-hand side
7 here, where the orders would be totalled, regular Fed Ex
8 shipping is available -- there -- that is the method used?

9 A Yes.

10 Q Right to the left of that, do you see where
11 there's a little block that indicates Fed Ex shipping per
12 U.S. address and then there's some numbers under there?

13 A Yes.

14 Q They are the shipping and handling charges, is
15 that correct?

16 A Yes.

17 Q And they range from \$3.50 to \$7.50, depending on
18 the value of the order?

19 A Correct.

20 Q Is it customary for mail order companies to
21 include in that charge not only the shipping but also
22 handling charges?

23 A I think yes, but it does vary by companies.

24 MR. McKEEVER: All right. That's all I have, Mr.
25 Chairman.

1 CHAIRMAN GLEIMAN: Mr. Reiter?

2 MR. REITER: Thank you, Mr. Chairman. The Postal
3 Service has no questions for Mr. Jellison.

4 CHAIRMAN GLEIMAN: Questions from the bench?

5 [No response.]

6 CHAIRMAN GLEIMAN: No questions from the bench.
7 That brings us to redirect.

8 MR. MAY: Just one question, Mr. Chairman.
9 Is this mike live?

10 CHAIRMAN GLEIMAN: I think so, yes, sir.

11 REDIRECT EXAMINATION

12 BY MR. MAY:

13 Q Mr. Jellison, Mr. McKeever asked you about L.L.
14 Bean's practice of allowing the customer to select Fed Ex as
15 a mode of delivery by paying \$3.50.

16 Do you have any knowledge one way or the other
17 whether it is Fed Ex's intention to recover its own Fed Ex
18 transportation costs through this charge?

19 A I don't have any first-hand knowledge. I have
20 been told that they do not recover their full transportation
21 charge for this charge, but I have no first-hand knowledge.

22 MR. MAY: Thanks, Mr. Chairman. That's it.

23 CHAIRMAN GLEIMAN: Is there any follow-up as a
24 consequence of redirect?

25 MR. McKEEVER: Yes, Mr. Chairman.

RECROSS-EXAMINATION

1

2

BY MR. McKEEVER:

3

4

Q Mr. Jellison, is that because it costs more to deliver to residential areas?

5

A I don't know the reason why.

6

7

MR. McKEEVER: Okay. That's all I have, Mr. Chairman.

8

9

CHAIRMAN GLEIMAN: Thank you. Any further redirect?

10

MR. MAY: No, Mr. Chairman.

11

12

13

14

CHAIRMAN GLEIMAN: If that is the case then, Mr. Jellison, we appreciate your appearance here today and your contributions to our record, and if there is nothing further, you are excused.

15

THE WITNESS: Thank you, sir.

16

[Witness excused.]

17

18

CHAIRMAN GLEIMAN: Mr. May, if you are ready to identify your next witness?

19

20

MR. MAY: Yes. I'd like Dale Mullin to come forward. Sit right down there.

21

22

You are Dale Mullin, who is testifying on behalf of the Parcel Distributors Association, an employee of Avon?

23

MR. MULLIN: Yes.

24

MR. MAY: Mr. Chairman.

25

Whereupon,

1 DALE A. MULLIN,
2 a witness, was called for examination by counsel for the
3 Parcel Shippers Association and, having been first duly
4 sworn, was examined and testified as follows:

5 CHAIRMAN GLEIMAN: Please be seated.

6 DIRECT EXAMINATION

7 BY MR. MAY:

8 Q Mr. Mullin, I am going to hand you two copies of a
9 document captioned "Direct Testimony of Dale Mullin on
10 Behalf of Parcel Distributors Association." I ask that you
11 examine these copies and see if that is your testimony?

12 A Yes, it is.

13 Q And if you were to testify fully today, would this
14 be the testimony you would offer?

15 A Yes.

16 Q And do you adopt this as your testimony in this
17 proceeding?

18 A Yes.

19 MR. MAY: Mr. Chairman, I am handing two copies of
20 the document to the reporter and ask that it be transcribed
21 in the record.

22 CHAIRMAN GLEIMAN: Are there any objections? Are
23 there any objections?

24 [No response.]

25 CHAIRMAN GLEIMAN: Hearing none, Mr. Mullin's

1 testimony and exhibits are received into evidence and I
2 direct that they be transcribed into the record at this
3 point.

4 [Direct Testimony and Exhibits of
5 Dale A. Mullin, PSA-T-2, was
6 received into evidence and
7 transcribed into the record.]
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PSA-T-2

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

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

DIRECT TESTIMONY

OF

DALE A. MULLIN

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

**Timothy J. May, Esquire
PATTON BOGGS, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037-1350
Tel. (202) 457-6050
Fax. (202) 457-6315**

**Counsel for
Parcel Shippers Association**

December 29, 1997

AUTOBIOGRAPHICAL SKETCH

My name is Dale A. Mullin. I am Director, Transportation and Logistics, Avon Products, Inc. I was educated at the University of Kansas where I received a Bachelor of Science Degree; and pursued further studies in transportation and logistics programs at the University of Missouri, Michigan State University and the University of North Florida, from 1975 to 1997. My work experience began with EFD Package Express in Kansas City, Missouri where I was the district manager from 1973 to 1974. I have been employed continuously with Avon Products, Inc. since that time. Most of my work experience has been on the shipper's side of transportation. I have been responsible for all modes of transportation, with my primary emphasis at Avon being in the area of package delivery. More than half of Avon's expenditures for freight are paid to delivery carriers. Avon's annual sales (1996) were \$4.8 billion, of which \$1.7 billion represented U.S. sales. Avon operates in 130 countries. In the United States, Avon annually ships approximately 13 million orders, consisting of 20 million packages weighing 260 million pounds. All of these shipments are delivered to Avon representatives who live in residential areas.

I am submitting this testimony as part of the Parcel Shippers Association presentation in this proceeding so that the Postal Rate Commission will have the benefit of the first-hand experience of a major shipper of parcels, a company that utilizes a variety of transportation companies to ensure timely and efficient delivery of its merchandise to its customers. Much of my testimony today deals with my company's

experience in the use of United Parcel Service as one of the only two available transportation companies that can deliver its merchandise nationwide to the residential customer. I am well aware that United Parcel Service's rates and practices are not directly at issue in this proceeding. On the other hand, I do not believe that the Commission will be able to make informed judgments about the competitive position of the United States Postal Service's parcel post service without an understanding of the way in which it competes in the parcel shipping market, and the basis upon which customers of both United Parcel Service and USPS make their choices. Also, it is my understanding that the Commission has an obligation to weigh the affect of its recommendations upon the competitors of the Postal Service; but most importantly, as the Commission itself has held repeatedly, a prime obligation of the Postal Rate Commission in its rate setting and classification recommendations is the preservation and encouragement of competition in the market place. It is for that reason that I believe the record will be informed by my testimony concerning Avon's experience with United Parcel Service as a very important carrier of its merchandise.

As far as Avon is concerned, and we believe this is true of other major parcel shippers, the business-to-business delivery market and the business-to-residence delivery market are distinct and separate markets, where the competitive factors are equally different. Just as is the case with the expedited delivery market, there are more than two providers of transportation services in the business-to-business market. However, in the home delivery market there are only two choices: United Parcel Service and the USPS parcel post service. We ask the Commission also to bear in

mind that there is no other federal or state regulatory service to question or review the rate and service practices of United Parcel Service. Since USPS parcel post service is the only meaningful competitor to UPS in the residential delivery sector, it should be obvious that UPS could be in a *de facto* monopolistic position. It is therefore more important than ever that the PRC ensure that parcel post rates and classifications that they recommend will enable USPS parcel post service to be an effective competitor in what would otherwise be a monopolistic market for UPS.

United Parcel Service's rate practices over the last six years confirm the fact that they regard competition in the business-to-business market to be serious, causing them to restrain the rate increases they have imposed in that market. Conversely, it is evident that UPS does not take USPS parcel post service as a serious competitor in their residential market because their price increases in that sector have been considerably larger than in the business-to-business sector, and made in utter disregard of parcel post rates and service. In other words, UPS in that market is behaving like the monopolist who can charge what the traffic will bear.

It is important to have in perspective that the competitive landscape has radically changed since the 1970's, when UPS won its final authority completing their inter- and intra-state authority in all fifty (50) states. That intra-state authority in a number of states was granted based on UPS' claimed commitment to providing better service at competitive rates. The success of UPS has eliminated all viable competition except USPS, the former competition consisting primarily of regional package delivery companies.

In 1991 UPS announced its two-tier rate structure, higher residential and lower commercial rates. At that time commercial rates were defined as business-to-business regardless of what the address was. Direct marketers who ship primarily to residential customers were hit with enormous UPS rate increases to that market. Direct selling companies continued under that policy to pay the commercial or business-to-business rates.

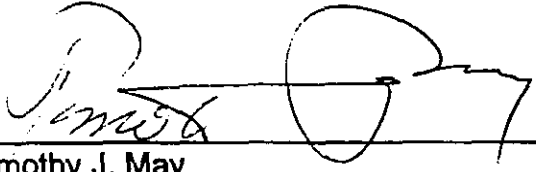
In 1995 UPS announced its Remote Delivery policy to apply to 20,000 plus zip codes throughout the country. Under this policy any address that is more than ten (10) minutes from the city limits and one (1) mile off the main road will have delivery service cut back from five (5) days a week to two (2) days a week. And we must report that the two (2) day deliveries are not consistent. Then, in December 1996, UPS announced that beginning last January any residential delivery regardless of the customer type would be assessed the residential rate. This was an enormous blow to companies, such as Avon, in the direct selling industry; the average increase from this changed policy was 80¢ a package.

This is not an insignificant group of businesses. There are some 7.2 million nationwide in the direct selling business, accounting for nearly \$18 billion worth of products and services sold. The pleas of these business persons, who operate every bit as much a commercial operation as any other business but who happen to work out of their homes, fell on deaf ears at UPS. They have been denied commercial rates and daily service in UPS designated "Remote Zip Code" areas. There is no local, state, or federal regulatory body to whom these 7 million businesses can appeal. Their only

hope is that this Rate Commission will recommend rates and policies that will enable the United States Postal Service's parcel post service to become an effective competitor in the home delivery market. Only competition can give meaningful redress to the monopolistic behavior of UPS toward our industry.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

December 29, 1997

1 CHAIRMAN GLEIMAN: Mr. Mullin, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies of the designated written
11 cross-examination of Witness Mullin to the reporter, and
12 direct that it be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of Dale A.
16 Mullin, PSA-T-2, was received into
17 evidence and transcribed into the
18 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PARCEL SHIPPERS ASSOCIATION
WITNESS DALE A. MULLIN
(PSA-T2)


Party

United Parcel Service

Interrogatories

UPS/PSA-T2-7, 9-10

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with the first name being the most prominent.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
PARCEL SHIPPERS ASSOCIATION
WITNESS DALE A. MULLIN (T2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/PSA-T2-7
UPS/PSA-T2-9
UPS/PSA-T2-10

Designating Parties:

UPS
UPS
UPS

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS MULLIN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T2-7. Please provide the number of packages shipped to Avon and the amount of revenue paid by Avon to the United States Postal Service for each of the most recent three years (i.e., 1995, 1996, and 1997).

RESPONSE. In 1995, Avon shipped 55,355 packages; in 1996, Avon shipped 65,828 packages; and in 1997, Avon shipped 70,807 packages. All packages were shipped by regular parcel post, with no discounts.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS MULLIN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T2-9. Please provide the percentage of parcels shipped during 1997 by Avon using UPS which paid UPS's rates for residential deliveries.

RESPONSE. Zero.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS MULLIN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T2-10. Please refer to the last 2 lines of page 1 of your testimony, where you indicate that Avon "utilizes a variety of transportation companies to ensure timely and efficient delivery of its merchandise to its customers."

(a) Identify all transportation companies used by Avon (a) at present and, separately, (b) at any time during 1997, to effect delivery of Avon's products.

(b) Please provide the volumes shipped by Avon in the most recently fiscal year for all such transportation companies combined.

RESPONSE.

(a) We utilize 31 contract carriers to transmit consolidated orders to our sales representatives. We regard the identities of those carriers as proprietary information.

(b) In 1997 Avon shipped 8.9 million orders, and 17 million packages, at a total weight of 230 million pounds.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that moves us along to
5 oral cross. One party, United Parcel Service, requested
6 oral cross-examination of the witness.

7 Does any other participant wish to cross-examine
8 the witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mr. McKeever, you can
11 begin when you are ready.

12 MR. MCKEEVER: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. MCKEEVER:

15 Q Good afternoon, Mr. Mullin.

16 A Good afternoon.

17 Q Could you please turn to page 1 of your testimony?

18 A Okay.

19 Q Page 1 of your testimony, right?

20 A Yes.

21 Q Now, near the bottom of the first paragraph in
22 your testimony, you state that in the United States, Avon
23 annually ships approximately 13 million orders, consisting
24 of 20 million packages weighing 260 million pounds, do you
25 see that?

1 A Correct.

2 Q Is that number of 20 million packages, is that a
3 1997 number?

4 A Yes, it is. More or less. It's pretty close.

5 Q Okay. And could you turn now to your response to
6 Interrogatory UPS/PSA-T-2-7?

7 COMMISSIONER LeBLANC: I'm sorry, Mr. McKeever, we
8 were having a conversation. I missed where you are. Where
9 did you go?

10 MR. McKEEVER: Interrogatory answer UPS/PSA-T-2-7.

11 COMMISSIONER LeBLANC: Thank you.

12 MR. McKEEVER: You're welcome, Mr. Commissioner.

13 THE WITNESS: Okay.

14 BY MR. McKEEVER:

15 Q And in your response to that Interrogatory, Mr.
16 Mullin, you state that in 1997, Avon shipped almost 71,000
17 packages, 70,807 packages, by the Postal Service, all by
18 parcel post, is that right?

19 A That's correct.

20 Q So the balance of
21 nineteen-million-nine-hundred-and-some-thousand packages
22 were shipped by carriers other than the Postal Service?

23 A That's correct.

24 Q Could you turn to your answer to Interrogatory
25 UPS/PSA-T-2-10, please?

1 A Yes.

2 Q There you indicate that Avon uses 31 contract
3 carriers. Is that to make delivery of merchandise to its
4 representatives?

5 A That's correct.

6 Q Okay. And that's about 17 million packages
7 shipped by those 31 contract carriers, roughly?

8 A Roughly, more or less.

9 Q Okay. That's about 85 percent of your U.S.
10 package volume, right?

11 A Yes, I would guess it is.

12 Q And they are sent to residential areas, is that
13 correct?

14 A That's correct.

15 MR. McKEEVER: That's all I have, Mr. Chairman.

16 CHAIRMAN GLEIMAN: Is there any follow-up?

17 MR. MAY: No, Mr. Chairman.

18 CHAIRMAN GLEIMAN: Questions from the bench?
19 Redirect?

20 [No response.]

21 CHAIRMAN GLEIMAN: I take it that was a
22 no-redirect.

23 MR. MAY: No redirect.

24 CHAIRMAN GLEIMAN: That being the case, Mr.

25 Mullin, I want to thank you for your appearance today and

1 your contributions to our record. And if there is nothing
2 further, you are excused.

3 THE WITNESS: Thank you.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: Our next witness was scheduled
6 to be Mr. Zweig, who we understand is -- did I pronounce his
7 name correctly?

8 MR. MAY: That's correct.

9 CHAIRMAN GLEIMAN: Is weathered-in in Milwaukee.
10 And you gentlemen were going to talk. I don't know whether
11 you have reached any agreement on whether Mr. Zweig has to
12 appear later on in the proceedings or not.

13 MR. McKEEVER: Mr. Chairman, I did review my notes
14 and we do have some questions on oral cross-examination for
15 Mr. Zweig. As far as when he appears, that is at the
16 convenience of the Commission.

17 CHAIRMAN GLEIMAN: Mr. May, I would ask that you
18 check with Mr. Zweig and then contact our General Counsel
19 and make arrangements to have Mr. Zweig scheduled for one of
20 the days between now and the end of these proceedings,
21 whenever they are going to be.

22 MR. MAY: He did say he could appear tomorrow.

23 CHAIRMAN GLEIMAN: I think that if he can appear
24 tomorrow, then we may as well -- we may as well hear from
25 him tomorrow then.

1 MR. MAY: Yes. He would -- I said I would call
2 him.

3 CHAIRMAN GLEIMAN: He doesn't want to be the first
4 one in the morning.

5 MR. MAY: Well, he can't be, he has to fly in.
6 So, assuming that the airport isn't socked in, he can be
7 here tomorrow. He said after noon.

8 CHAIRMAN GLEIMAN: Okay.

9 MR. MAY: After 12:00 noon.

10 CHAIRMAN GLEIMAN: That will be fine. As it
11 stands now, at least the witness list I had for the
12 proceedings indicates that we have four witnesses tomorrow,
13 GCA, Erickson; NAA, Chown; OCA, O'Bannon; and UPS,
14 Henderson. And if it is agreeable, then we will just add
15 Mr. Zweig to the end, which will put him sometime in the
16 afternoon.

17 MR. MAY: Thank you, Mr. CHairman.

18 CHAIRMAN GLEIMAN: Who knows when.

19 MR. MAY: Fine.

20 CHAIRMAN GLEIMAN: Thank you, I appreciate your
21 help in that, gentlemen.

22 If that is the case, then our next witness is
23 Witness Collins.

24 One of these days the Commission is going to do a
25 lottery to see what people think about how long we are going

1 to last based on the first witness of the day each day.

2 [Laughter.]

3 MR. MAY: Well, he might have made it here by now.

4 CHAIRMAN GLEIMAN: I just want to note for the
5 record that the Parcel Shippers witnesses moved through here
6 so fast that they moved faster than I was able to get them
7 up on the computer screen.

8 [Laughter.]

9 CHAIRMAN GLEIMAN: I am not sure whether that is a
10 commentary on how fast the cross-examination went or how
11 slow I am on the computer but it is somewhere in there.

12 Mr. Richardson, if you could identify our last
13 witness for today, so that I may swear her in.

14 MR. RICHARDSON: Thank you, Mr. Chairman. The
15 Office of Consumer Advocate calls Sheryda C. Collins to the
16 stand.
17 Whereupon,

18 SHERYDA C. COLLINS,
19 a witness, was called for examination by counsel for the
20 Office of Consumer Advocate and, having been first duly
21 sworn, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. RICHARDSON:

24 Q Ms. Collins, do you have before you two copies of
25 your direct testimony of Sheryda C. Collins filed in this

1 case?

2 A Yes, I do.

3 Q And have you had a chance to review that?

4 A Yes.

5 Q Do you have any changes or errata to mention?

6 A No.

7 Q And if you were asked the same questions today as
8 indicated therein, would your answers be the same?

9 A In my testimony?

10 Q Yes.

11 MR. RICHARDSON: Mr. Chairman, I would move into
12 evidence the direct testimony of Sheryda C. Collins entitled
13 OCA-T-700 together with Exhibits -- OCA Exhibit 701 through
14 OCA Exhibit 706.

15 CHAIRMAN GLEIMAN: Are there any objections?

16 [No response.]

17 CHAIRMAN GLEIMAN: Hearing none, the testimony and
18 exhibits of Witness Collins are received into evidence and I
19 direct that they be transcribed into the record at this
20 point.

21 [Direct Testimony and Exhibits of
22 Sheryda C. Collins, OCA-T-700, was
23 received into evidence and
24 transcribed into the record.]

25

OCA-T-700
Docket No. R97-1

DIRECT TESTIMONY
OF
SHERYDA C. COLLINS

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

December 30, 1997

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1 DIRECT TESTIMONY
2 OF
3 SHERYDA C. COLLINS

4 STATEMENT OF QUALIFICATIONS

5
6 My name is Sheryda C. Collins. I have been employed by the Postal Rate
7 Commission since January 1972. I was first assigned to the Office of the Special
8 Assistant, and later to the Office of the Technical Staff, Officer of the Commission
9 (Litigation Staff), and the Office of Technical Analysis and Planning. As a Rate
10 Analyst and a Rate and Classification Analyst on the Commission's advisory staff, I
11 prepared technical analyses and designed rates and classifications. My work
12 product was incorporated within the Commission's Decisions in Docket Nos. R74-1,
13 R87-1, R90-1 and R94-1, and in numerous classification dockets.

14 As a Rate and Classification Analyst on the Litigation Staff, I assisted in
15 preparing testimony and exhibits on pricing and rate design in Docket Nos. R76-1
16 and R77-1. I performed technical analyses in connection with Docket Nos. MC76-5
17 and R78-1. I was a witness in Docket Nos. MC76-4 and MC79-2. In Docket No.
18 R80-1, as a major rate design witness, I proposed rates for First-Class Mail, Priority
19 Mail, Express Mail, fourth-class mail and special services. I also proposed a new
20 rate category for First-Class Mail. In Docket No. MC95-1, I testified about pricing
21 and relative cost coverage levels. In the Special Services Classification case,

1 Docket No. MC96-3, I testified about and made proposals regarding Certified Mail,
2 Return Receipts, Insured Mail and Express Mail Insurance, and Postal Cards.

3 I am a graduate of the University of Massachusetts and have taken credits
4 toward an MBA degree at George Washington University. I have taken courses in
5 economics, public utility regulation, statistics, accounting, data processing, and
6 programming.

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to present an alternative to the Postal
3 Service's proposed rates for Standard B Library Rate mail. Because Library Rate is
4 a low volume subclass, the small number of IOCS tallies related to Library Rate and
5 from which the Library Rate costs are derived represents an extremely thin sample
6 and thus may not provide cost estimates which are truly representative of the
7 subclass. I propose, therefore, that the Commission use the costs of Standard B
8 Special Rate subclass as a proxy for the costs calculated for Library Rate.

1 II. BACKGROUND--THE POSTAL SERVICE'S PROPOSAL

2 Witness Adra, USPS-T-38, testifies about the rate proposals for Library Rate
3 and Special Rate mail. The rate structures of these two subclasses use the same
4 three tier elements. Using the latest Library Rate cost figures, he finds that the
5 current first pound rate of \$1.12 is not compensatory. Applying the appropriate
6 markup factor¹ (1.19537)² to the calculated new first pound cost (\$1.43) [Id.]
7 produces a first pound rate of \$1.71--a 53 percent increase. To mitigate the "rate
8 shock," he sets the first pound rate element at \$1.44, one cent over his calculated
9 first pound cost. He then distributes the resulting revenue loss to the two-to-seven
10 pound rate segment on a per pound basis. The rates he proposes represent an
11 increase over current rates of approximately 25 percent.

12 Witness Adra's proposal results in rates for Library Rate which are generally
13 higher than those proposed for Special Rate. Thus, he expects all Library Rate mail
14 that is eligible for Special Rate to migrate to that subclass. His financial calculations
15 reflect the assumption that 95 percent of Library Rate will migrate and pay the lower
16 Special Rate rates. Only those pieces that cannot qualify for the Special Rate will
17 be left to pay the higher Library Rate.

¹ The Revenue Foregone Reform Act of 1993 (RFRA) changed the manner in which rates for the preferred categories were to be set. Public Law 103-123, 107 Stat. 1267, 39 U.S.C. § 3626(a). RFRA specifies that after 1998 the percentage markup for a preferred rate subclass shall be one-half the markup proposed for the most closely corresponding regular-rate category. For the Standard B Library Rate subclass the corresponding regular-rate category is Standard B Special Rate.

² USPS-T-38, WP-Lib9, p. 2 (Adra).

1 III. CLASSROOM PUBLICATIONS--A DEMONSTRATION OF IOCS SAMPLING
2 PROBLEMS FOR SMALL SUBCLASSES

3 Guidance for solving the Library Rate problem (at least in the short term) may
4 be found in the history of various actions taken regarding another relatively small
5 subclass, Classroom. The Postal Service, the Commission and the participants
6 have been aware of problems surrounding the costs of Classroom publications for
7 many years.³ Many attempts have been made to address and compensate for the
8 instability of Classroom costs⁴ and it has been acknowledged that these costs are
9 too unreliable for ratemaking. The problem of wide fluctuations in reported
10 Classroom costs still has not been resolved. The low volume of Classroom mail
11 tends to produce a high coefficient of variation for Classroom costs. Consequently,
12 small variations in the number of Classroom pieces observed can be expected to
13 cause wide fluctuations in cost estimates. PRC Further Recommended Decision,
14 Docket No. MC96-2, at 16.

15 In Docket No. MC96-2, Mail Classification Reform II (Nonprofit Mail), Postal
16 Service witness Degen testified:

17 Volatility in the unit cost of Classroom mail can stem from volatility in
18 total Classroom attributable cost, total Classroom volume, or some
19 combination of the two. . . . The costs for Classroom are based on a very
20 small number of actual tallies. . . . The pattern of total costs tracks closely the
21 pattern of tallies. For a subclass as small as Classroom considerable
22 variation from year to year must be expected because the number of tallies is

³ See, for example, PRC Op., R84-1, paras. 5305-06, and PRC Op. R90-1, paras 5356-61.

⁴ PRC Op. R90-1, paras. 5356-61, PRC Op. R94-1, paras. 5212-16, and Docket No. MC96-2, USPS-CT-2.

1 very small. Consequently, variations in unit cost are an inherent problem for
2 Classroom.

3
4 The design of the IOCS does not generally allow increased sampling
5 of a particular subclass without increasing the overall sampling rate. In other
6 words, doubling the expected number of Classroom tallies would probably
7 require doubling the overall sampling rate. This would be very costly and
8 hard to justify for such a small category like Classroom. [USPS-CT-2 at 2
9 and 5.]
10

11 Witness Degen went on to say that Classroom is a very small volume

12 subclass with a very large coefficient of variance. At the 95 percent confidence level

13 there is a significant difference between the upper and lower bound cost estimates.

14 Variations in direct costs of this magnitude, he said, would cause problematic

15 variation in total unit cost estimates. He testified that, "The inevitable fluctuations

16 that will come in the Classroom cost estimates should support consideration of

17 alternative approaches." Id. at 6.

18 In this docket, Postal Service witness Degen has acknowledged that the

19 insufficiency of the IOCS sample in estimating cost is at least as severe for Library

20 Rate as it is for Classroom. In response to Presiding Officer's Information Request

21 No. 2 (POIR 2), he testifies:

22
23 We have looked at the tallies underlying Library rate. In 1995 there
24 are 152 tallies for Library rate. This may seem like a lot relative to other small
25 categories like Classroom, which had 31, however, tallies should occur in
26 proportion to volume and unit cost since tallies correspond to units in time
27 and higher cost categories embody more time per piece. If we look at tallies
28 per dollar of unit cost, Library has 80.4 and Classroom has 163.2. These
29 tallies per dollar of unit cost are proportional to the relative volumes in these
30 two classes. **Our conclusion is that Library rate costs, like Classroom,**
31 **suffer from some instability due to the small volume and the nature of**
32 **the IOCS sampling procedure. [Emphasis added.]**
33

1 In Docket No. MC96-2, the Postal Service proposed that the Classroom cost
2 problem be solved by “a phased combining of Classroom Mail rates and costs with
3 that of Nonprofit Mail.” USPS-CT-3 at 2. The Commission recommendation was to
4 apply existing Nonprofit Periodicals subclass rates to Classroom mail as an interim
5 measure, deferring a decision on a permanent merger to the next rate case. The
6 decision to merge Classroom and Nonprofit rates was based on the Postal Service’s
7 finding of commonalties between the two subclasses. These include the same
8 operational network, the same rate structure, the same RFRA⁵-specified cost
9 coverage, and the same advertising pound rates (also specified by RFRA). *Id.* at
10 (B) (4). This merger provided rate stability for Classroom mail and a cost coverage
11 consistent with RFRA. PRC Further Recommended Decision in Docket No. MC96-2
12 at 17 and 19. The Governors agreed that the full rates for Classroom mail should
13 be set using the full rates previously established for Nonprofit Periodicals. The
14 Governor’s Decision specifically noted that under the terms of RFRA, Classroom
15 and Nonprofit Periodicals are intended to have the same target cost coverage.

16 In this docket, the Postal Service proposes a *de facto* merger of two
17 subclasses, Library and Special Rate. Witness Adra proposes Library Rate rates
18 based on costs which share similar defects to those identified (and addressed) for
19 Classroom mail. The result is rates that are so high that he predicts 95 percent of
20 the present volume of the Library Rate subclass will migrate to Special Rate. I
21 suspect that witness Adra’s prediction would have been a 100 percent migration if

⁵ See fn. 1.

1 not for the fact that a small portion of Library Rate pieces is not eligible to be mailed
2 Special Rate.⁶

3 However, the circumstances surrounding these two subclasses and their
4 relationship to each other are somewhat different than those of Classroom and
5 Nonprofit subclasses. Classroom and Nonprofit are both preferred subclasses and
6 under RFRA are to have the same cost coverage, which is set in relation to the cost
7 coverage of the non-preferred subclass, Regular Periodicals. In contrast, Library
8 Rate's cost coverage under RFRA is to be set at one-half of the cost coverage of
9 Special Rate, the appropriate non-preferred subclass. Witness Adra explains that
10 this is exactly what he has done. However, applying one-half of the Special Rate
11 markup to the flawed costs of Library Rate results in rates that are so high that
12 virtually all of "preferred rate" Library Rate subclass will migrate to the "non-preferred
13 (but lower) rates" of the Special Rate subclass. There, those pieces will pay the
14 Special Rate cost coverage, which is twice the level specified by RFRA for Library
15 Rate mail.

16 When asked to explain any efforts made to improve the accuracy of the
17 attributable cost data for Library Rate mail, the Postal Service responded that
18 although many improvements had been made in postal cost allocation, "there were
19 . . . no efforts directed specifically to measurement of the costs of Library Rate."
20 Interrogatory ALA/USPS-3(c). Also, in response to POIR No. 2, witness Degen

⁶ In answer to an interrogatory, witness Adra stated that mathematical kits are examples of items which would be eligible to be mailed Library Rate but not Special Rate. Tr. 8/4276.

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1 stated that, "the Postal Service has not conducted any analysis of the increase in
2 Library rate costs in preparation for R97-1."

3 A serious question comes to mind. If the attributable costs for Library Rate
4 are truly reasonable and accurate enough to be used for ratemaking, as witnesses
5 Adra and Degen have testified,⁷ why is the Postal Service so complacent about the
6 migration of Library Rate pieces to the Special Rate subclass when each migrating
7 piece will cost at least 19 cents more than SR pieces for the first pound? (\$1.43
8 cost for the first pound of Library Rate minus \$1.24 cost for the first pound of Special
9 Rate = \$0.19.)

⁷ See, for example, Degen response to POIR No. 2, question 2 and Adra at Tr. 8/4308.

1 IV. THE ATTRIBUTABLE COSTS PER PIECE OF SPECIAL RATE ARE A
2 REASONABLE PROXY FOR THE UNRELIABLE COSTS CALCULATED
3 FOR LIBRARY RATE AND SHOULD BE USED BY THE COMMISSION FOR
4 RATEMAKING PURPOSES

5
6 Special Rate costs should be used as a proxy for Library Rate costs.

7 Although, as shown above, the relationship between these two subclasses is
8 somewhat different than that at issue in Docket No. MC96-2, many of the reasons
9 cited by the Commission and the Governors for recommending the union of
10 Classroom and Nonprofit Periodicals rates apply here. The reasons in support of
11 this conclusion include:

- 12 • "The rate structure for Library and Special Standard mail is identical." Tr.
13 8/4274.
- 14 • The composition of both subclasses is very similar. See DMM 52, E620.5.2; 5.4.
15 Witness Adra states that the predominant items mailed in both subclasses are
16 books, sound and video recordings. Tr. 8/4293-96.
- 17 • The processing of Library Rate and Special Rate is similar. The normal practice
18 is to process them in the same operations as a single mail stream. This is
19 significant because witness Degen, when asked about differences in the
20 processing of the two types of mail, testified that if the two subclasses were
21 segregated [i.e., in two separate mailstreams], he would have had more concern
22 that there actually were differences in mail processing. Tr. 12/6336-37.

- 1 • The largest component of cost for Library Rate, mail processing, is “volatile” and
2 unstable due to small volumes and the nature of the IOCS sampling procedure.
3 POIR No. 2, question 1, and Tr. 8/4305.
- 4 • The second largest component of cost for Library Rate, transportation, uses the
5 Transportation Cost System (TRACS) to develop distribution keys, which are
6 then used to estimate various purchased transportation costs. The coefficients
7 of variance for the estimates of this small subclass are high compared to the
8 Special Rate subclass. Witness Nieto testified that, “Low volume in a particular
9 subclass would result in increased variance in the distribution keys since it is
10 likely that fewer movements and fewer containers sampled would contain Library
11 Rate mail.” Tr. 7/3359. Special Rate has coefficients of variance that are better
12 on the whole than for Library Rate. Tr. 7/3523-29 and Tr. 8/4307.
- 13 • Variations in direct costs, because of high coefficients of variance, cause
14 problematic variation in total unit cost estimates. This problem has been
15 recognized and ameliorated by both the Commission and the Postal Service in
16 regard to Classroom mail. Similar corrective action should be taken for Library
17 Rate mail.
- 18 • Use of Special Rate costs as a proxy for Library Rate allows for the cost
19 coverage provisions of RFRA to be met with reasonable rate results.
- 20 • **Not** substituting Special Rate costs for Library Rate costs creates a *de facto*
21 merger of the two subclasses. This would be improper because Library Rate, a
22 preferred rate category established by an Act of Congress, essentially would be
23 eliminated by administrative fiat. The few unlucky Library Rate mailers who

1 cannot qualify for the lower Special Rate rates certainly will not receive the
 2 benefits of a preferred rate category as Congress intended—and, to a lesser
 3 extent, neither will those Library Rate pieces that migrate.

4 • When Witness Adra was asked whether he was concerned about witness
 5 Degen's answers to POIR No. 2 regarding instability in Library Rate costs, he
 6 responded that "timing is important and relevant . . . Witness Degen did this
 7 analysis in the discovery period, not during when we were working with rates and
 8 designing the rates." Tr. 8/4309. The implication seems to be that due to the
 9 press of time in preparing the original filing, the Library Rate cost problem was
 10 not addressed. Not until the discovery period, with questions pending, was there
 11 time for witness Degen, or others, to focus on this issue.

12 • Testimony of the Postal Service affirms that a cost proxy for the Library Rate
 13 subclass may be considered. At Tr. 8/4310, the following colloquy occurred with
 14 witness Adra:

15 Q. If you could turn back the clock and take into account your awareness
 16 now that there is variance in the Segment 3 costs which underlies the library
 17 rate and there appears at least to be higher variance in Segment 14, highway
 18 transportation, higher for library rate than special rate, do you think you might
 19 consider using a cost proxy instead of the reported cost for library rate?
 20

21 A. If I can turn back the clock and if I have also more time, I would
 22 definitely look into it. Now what would I do? It's hard for me today to answer
 23 conclusively.
 24

25
 26

27 And at Tr. 8/4311:

28
 29 Q. Since special rate is the commercial counterpart for library rate, do you
 30 think that that might be one of the cost proxies you would look at? If you

1 were to think that it might be worthwhile to explore cost proxies, would you
2 look at special rate?

3

4 A. If I deemed it appropriate to look for a proxy, it's a possibility.

5

6

7 • The Presiding Officer asked witness Adra, in regard to the classroom

8 reclassification decision, "Are you aware that in that case a proxy was used for

9 classroom costs?" The witness answered "Yes, I am." Tr. 8/4319.

1 V. RECOMMENDATION

2 The rates I propose as an alternative are shown below, compared to those
3 proposed by the Postal Service.

4		<u>OCA</u>	<u>PS</u>
5	First Pound	\$1.13	\$1.44
6	Two through Eight Pounds	\$0.40	\$0.52
7	All Pounds Over Eight	\$0.19	\$0.25

8 These rates will yield revenues which are approximately \$9 million less than the
9 Postal Service proposal. My exhibits show the derivation of these rates. I have
10 used the same methodology as witness Adra, only substituting Special Rate costs
11 for his calculated Library Rate costs, and have made a small adjustment to the
12 volume estimate to compensate for these lower alternative rates.

1 VI. CONCLUSION

2 Use of the reported attributable costs of Library Rate mail produces rates that
3 are unacceptably high and which do not have a reasonable relationship with other
4 rates, i.e., the subclass with a presumptive rate preference ends up with rates higher
5 than the regular subclass. Use of Special Rate unit costs as a proxy produces rates
6 which preserve historical rate relationships and are reasonable. They also are
7 responsive to the requirements of RFRA and should be recommended by the
8 Commission.

9

Revised
2/9/98

1 stated that, "the Postal Service has not conducted any analysis of the increase in
2 Library rate costs in preparation for R97-1."

3 A serious question comes to mind. If the attributable costs for Library Rate
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6 migration of Library Rate pieces to the Special Rate subclass when each migrating
7 piece will cost at least 19 cents more than SR pieces for the first pound? (\$1.43
8 cost for the first pound of Library Rate minus \$1.24 cost for the first pound of Special
9 Rate = \$0.19.)

⁷ See, for example, Degen response to POIR No. 2, question 2 and Adra at Tr. 8/4308.

Proposed Rate for First Pound

	[2]	Markup [3]	Proposed	ROUNDED
\$Transportation per lb	\$0.14	119.537%	\$0.1674	\$0.17
\$ non-transp per lb [1]	\$0.02	119.537%	\$0.0239	\$0.02
Subtotal - \$ per lb	\$0.16	119.537%	\$0.1913	\$0.19
Per piece	\$0.96	119.537%	\$1.1476	\$1.15
Total for First Pound	\$1.12	119.537%	\$1.3388	\$1.34

Rate Comparison	R94	Proposed	Percent Change
First Pound - Single Piece	\$1.12	\$1.34	20%
Second through Seventh Pounds	\$0.41	\$0.19	-54%
Eighth Pound and over	\$0.22	\$0.19	-14%

Notes:

[1] Based on 2 cents per lb to reflect weight-related non-transportation costs;

[2] USPS-T-38, WP-SR4, p.1.

[3] USPS-T-38, WP-Lib9, p.2.

**Standard (B) Library Rate
Adjusting Proposed Rates - Full rates
TYAR Revenue Estimates**

Calculation of Postage Pounds		
USPS Volume (pieces)	Weight Per Piece (pounds)	Postage Pounds (pounds)
[1]	[2]	[3]
28,759,700	2.254645404	64,842,925

Calculation of Revenues with raw proposed rates

Rate Unit	Postage Pounds		Proposed Rates [6]	Unadjusted Revenues [7]	Adjusted Factor [8]	Adjusted Revenues [9]	Barcode Leakage [10]	Net Revenue [11]
	FY 1996 % [4]	TYBR Distribution [5]						
First Pound - Single Piece	44.35%	28,759,701	\$1.34	\$38,537,999	1.003520899	\$38,673,687	--	
Second through Seventh Pounds	44.89%	29,110,976	\$0.19	\$5,531,086	1.003520899	\$5,550,560	--	
Eighth Pound and over	10.75%	6,972,249	\$0.19	\$1,324,727	1.003520899	\$1,329,392	--	
Total	100.00%	64,842,926	--	\$45,393,812		\$45,553,639	\$10,036	\$45,543,603

Calculation of Revenues with adjusted rates - Set first pound to \$1.13 [12]

Rate Unit	Postage Pounds		Proposed Rates	Unadjusted Revenues	Adjusted Factor	Adjusted Revenues	Barcode Leakage	Net Revenue
	FY 1996 %	TYBR Distribution						
First Pound - Single Piece	44.35%	28,759,701	\$1.13	\$32,498,462	1.003520899	\$32,612,885	--	
Second through Seventh Pounds	44.89%	29,110,976	\$0.19	\$5,531,086	1.003520899	\$5,550,560	--	
Eighth Pound and over	10.75%	6,972,249	\$0.19	\$1,324,727	1.003520899	\$1,329,392	--	
Total	100.00%	64,842,926	--	\$39,354,275		\$39,492,837	\$10,036	\$39,482,801

Leakage	\$6,060,802	[13]
Second through Seventh	29,110,976	
Add-on per pound	\$0.21	

Calculation of revenues with adjusted rates [14]

Rate Unit	Postage Pounds		Adjusted Proposed Rates	Unadjusted Revenues	Adjusted Factor	Adjusted Revenues	Barcode Leakage	Net Revenue
	FY 1996 %	TYBR Distribution						
First Pound - Single Piece	44.35%	28,759,701	\$1.13	\$32,498,462	1.003520899	\$32,612,885	--	
Second through Seventh Pounds	44.89%	29,110,976	\$0.40	\$11,644,391	1.003520899	\$11,685,389	-	
Eighth Pound and over	10.75%	6,972,249	\$0.19	\$1,324,727	1.003520899	\$1,329,392	-	
Total	100.00%	64,842,926	--	\$45,467,580		\$45,627,666	\$10,036	\$45,617,630

Adjusted Proposed Rate Elements		
Rate Element	Adjusted Rounded Rates	Percent Increase (Decrease)
First Pound - Single Piece	\$1.13	1%
Second through Seventh Pounds	\$0.40	-2%
Eighth Pound and over	\$0.19	-14%

Notes:

[1] USPS-T-38, WP-Lib10 (Adra)

[2] USPS-T-38, WP-Lib2 (Adra)

[3] [1]*[2]

[4] USPS WP-Lib2 (Adra)

[5] [3] * percentage in[4]

[6] Proposed rates from p. 1.

[7] [5]*[6]

[8] Billing Determinants 1996

[9] [7]*[8]

[10] USPS-T-38, WP=Lib10. Volume of currently barcoded * proposed discount of 4 cents

[11] [9] - [10]

[12] Set the first pound rate element to \$1.13 and recalculate revenues in the same way as done in steps [4] to [11]

[13] Distributes the revenues loss caused from adjusting the first pound rate element over the Second through Seventh Pounds.

[14] Adjust the Second to Seventh Pound rate element by the add-on calculated in [13]; Recalculate revenues.

Source: USPS-LR-H-172

OCA Exh. 703
Page 1 of 5

**SUMMARY TABLE OF AFTER-RATES FIXED WEIGHT INDICES
FOR STANDARD B SPECIAL RATE AND LIBRARY RATE
USING 1996 BILLING DETERMINANTS**

QUARTER	<u>STANDARD B</u>		LIBRARY RATE - S
	SPECIAL RATE (PX29)	LIBRARY RATE - L (PX30)	
1966.1	0.159803	0.052731	0.052731
1966.2	0.159803	0.052731	0.052731
1966.3	0.159803	0.052731	0.052731
1966.4	0.159803	0.052731	0.052731
1967.1	0.159803	0.052731	0.052731
1967.2	0.159803	0.052731	0.052731
1967.3	0.159803	0.052731	0.052731
1967.4	0.159803	0.052731	0.052731
1968.1	0.162225	0.054446	0.054446
1968.2	0.191764	0.075357	0.075357
1968.3	0.191764	0.075357	0.075357
1968.4	0.191764	0.075357	0.075357
1969.1	0.191764	0.075357	0.075357
1969.2	0.191764	0.075357	0.075357
1969.3	0.191764	0.075357	0.075357
1969.4	0.191764	0.075357	0.075357
1970.1	0.191764	0.075357	0.075357
1970.2	0.191764	0.075357	0.075357
1970.3	0.191764	0.075357	0.075357
1970.4	0.191764	0.075357	0.075357
1971.1	0.191764	0.075357	0.075357
1971.2	0.191764	0.075357	0.075357
1971.3	0.207502	0.080299	0.080299
1971.4	0.223725	0.085393	0.085393
1972.1	0.223725	0.085393	0.085393
1972.2	0.223725	0.085393	0.085393
1972.3	0.223725	0.085393	0.085393
1972.4	0.223725	0.085393	0.085393
1973.1	0.223725	0.085393	0.085393
1973.2	0.223725	0.085393	0.085393
1973.3	0.223725	0.085393	0.085393
1973.4	0.233531	0.089256	0.089256

1974.1	0.255685	0.097983	0.097983
1974.2	0.262352	0.097983	0.097983
1974.3	0.275686	0.097983	0.097983
1974.4	0.275686	0.097983	0.097983
1975.1	0.275686	0.097983	0.097983
1975.2	0.275686	0.097983	0.097983
1975.3	0.275686	0.097983	0.097983
1975.4	0.297220	0.106707	0.106707
1976.1	0.308008	0.109047	0.109047
1976.2	0.315599	0.130644	0.130644
1976.3	0.315599	0.130644	0.130644
1976.4	0.357222	0.139254	0.139254
1977.1	0.364114	0.140679	0.140679
1977.2	0.364114	0.140679	0.140679
1977.3	0.364114	0.140679	0.140679
1977.4	0.413655	0.157671	0.157671
1978.1	0.422632	0.160750	0.16075
1978.2	0.422632	0.160750	0.16075
1978.3	0.445376	0.163212	0.163212
1978.4	0.649015	0.196053	0.196053
1979.1	0.675168	0.201013	0.201013
1979.2	0.675168	0.201013	0.201013
1979.3	0.675168	0.201013	0.201013
1979.4	0.800812	0.236189	0.236189
1980.1	0.827674	0.243709	0.243709
1980.2	0.827674	0.243709	0.243709
1980.3	0.827674	0.243709	0.243709
1980.4	0.827674	0.268098	0.268098
1981.1	0.827674	0.273938	0.273938
1981.2	0.827674	0.273938	0.273938
1981.3	0.877279	0.303937	0.303937
1981.4	0.877658	0.346711	0.346711
1982.1	0.877658	0.350283	0.350283
1982.2	0.877658	0.431940	0.43194
1982.3	0.877658	0.449892	0.449892
1982.4	0.877658	0.458357	0.458357
1983.1	0.877658	0.449892	0.449892
1983.2	0.877658	0.483140	0.48314
1983.3	0.877658	0.490156	0.490156
1983.4	0.877658	0.490156	0.490156
1984.1	0.877658	0.490156	0.490156
1984.2	0.877658	0.490156	0.490156
1984.3	0.877658	0.490156	0.490156
1984.4	0.877658	0.490156	0.490156
1985.1	0.877658	0.490156	0.490156
1985.2	0.902057	0.513911	0.513911

1985.3	0.952557	0.563080	0.56308
1985.4	0.952557	0.563080	0.56308
1986.1	0.952557	0.563080	0.56308
1986.2	0.952557	0.696085	0.696085
1986.3	0.952557	0.763485	0.763485
1986.4	0.952557	0.759228	0.759228
1987.1	0.952557	0.759228	0.759228
1987.2	0.952557	0.759228	0.759228
1987.3	0.952557	0.759228	0.759228
1987.4	0.952557	0.759228	0.759228
1988.1	0.952557	0.759228	0.759228
1988.2	0.952557	0.759228	0.759228
1988.3	1.192139	0.867509	0.867509
1988.4	1.275260	0.905077	0.905077
1989.1	1.275260	0.905077	0.905077
1989.2	1.275260	0.905077	0.905077
1989.3	1.275260	0.905077	0.905077
1989.4	1.275260	0.905077	0.905077
1990.1	1.275260	0.905077	0.905077
1990.2	1.275260	0.905077	0.905077
1990.3	1.275260	0.905077	0.905077
1990.4	1.275260	0.905077	0.905077
1991.1	1.275260	0.905077	0.905077
1991.2	1.366027	0.913337	0.913337
1991.3	1.497134	0.925269	0.925269
1991.4	1.497134	0.925269	0.925269
1992.1	1.497134	0.925269	0.925269
1992.2	1.497134	0.925269	0.925269
1992.3	1.497134	0.925269	0.925269
1992.4	1.497134	0.925269	0.925269
1993.1	1.497134	0.925269	0.925269
1993.2	1.497134	0.925269	0.925269
1993.3	1.497134	0.925269	0.925269
1993.4	1.497134	0.925269	0.925269
1994.1	1.497134	0.927702	0.927702
1994.2	1.497134	0.935305	0.935305
1994.3	1.497134	0.935305	0.935305
1994.4	1.497134	0.935305	0.935305
1995.1	1.497134	0.935305	0.935305
1995.2	1.694867	1.420675	1.420675
1995.3	1.763468	1.589069	1.589069
1995.4	1.763468	1.589069	1.589069
1996.1	1.763468	1.591078	1.591078
1996.2	1.763468	1.591502	1.591502
1996.3	1.763468	1.591502	1.591502
1996.4	1.763468	1.591502	1.591502

1997.1	1.763468	1.593474	1.593474
1997.2	1.763468	1.593935	1.593935
1997.3	1.763468	1.593935	1.593935
1997.4	1.763468	1.593935	1.593935
1998.1	1.764639	1.901728	1.768591
1998.2	1.764940	1.980874	1.813503
1998.3	1.764940	1.980874	1.813503
1998.4	1.764940	1.980874	1.813503
1999.1	1.764940	1.980874	1.813503
1999.2	1.764940	1.980874	1.813503
1999.3	1.764940	1.980874	1.813503
1999.4	1.764940	1.980874	1.813503
2000.1	1.764940	1.980874	1.813503
2000.2	1.764940	1.980874	1.813503
2000.3	1.764940	1.980874	1.813503
2000.4	1.764940	1.980874	1.813503

OCA Exh. 703
Page 5 of 5

OCA ADJUSTMENT TO USPS LIBRARY RATE VOLUME ESTIMATE

[1]	1.813503	
[2]	1.908740	
[3] & [4]	1.81826485	1.586514
[5]	0.872542853	
[6] & [7]	-0.127457147	0.080807831
[8] & [9]	28,727,574	31,048,987

- [1] Postal quarter 2000.4 (Library Rate at the rates for Special Rate)
USPS-LR-H-172
- [2] Postal quarter 2000.4 (Library Rate at the USPS proposed rates
for Library Rate) USPS-LR-H-172
- [3] $[2] * (0.05) + [1] * (0.95)$
- [4] See OCA Exh. 704. Postal quarter 2000.4
USPS-LR-H-172 with proposed OCA rates instead of USPS
- [5] $[4] / [3]$
- [6] $- 1 + [5]$
- [7] $[6] * \text{elasticity } (-0.634)$. USPS-T-6 at 168
- [8] UPSP-T-38, WP-Lib8 (Adra)
- [9] $(1 + [7]) * [8] = \text{OCA volume}$

Source: USPS-LR-H172

OCA Exh. 704

Page 1 of 4

OCA

**SUMMARY TABLE OF AFTER-RATES FIXED WEIGHT INDICES
FOR STANDARD B SPECIAL RATE AND LIBRARY RATE
USING 1996 BILLING DETERMINANTS**

QUARTER	STANDARD B	
	SPECIAL RATE (PX29)	LIBRARY RATE - L (PX30)
1966.1	0.159803	0.052731
1966.2	0.159803	0.052731
1966.3	0.159803	0.052731
1966.4	0.159803	0.052731
1967.1	0.159803	0.052731
1967.2	0.159803	0.052731
1967.3	0.159803	0.052731
1967.4	0.159803	0.052731
1968.1	0.162225	0.054446
1968.2	0.191764	0.075357
1968.3	0.191764	0.075357
1968.4	0.191764	0.075357
1969.1	0.191764	0.075357
1969.2	0.191764	0.075357
1969.3	0.191764	0.075357
1969.4	0.191764	0.075357
1970.1	0.191764	0.075357
1970.2	0.191764	0.075357
1970.3	0.191764	0.075357
1970.4	0.191764	0.075357
1971.1	0.191764	0.075357
1971.2	0.191764	0.075357
1971.3	0.207502	0.080299
1971.4	0.223725	0.085393
1972.1	0.223725	0.085393
1972.2	0.223725	0.085393
1972.3	0.223725	0.085393
1972.4	0.223725	0.085393
1973.1	0.223725	0.085393
1973.2	0.223725	0.085393
1973.3	0.223725	0.085393

1973.4	0.233531	0.089256
1974.1	0.255685	0.097983
1974.2	0.262352	0.097983
1974.3	0.275686	0.097983
1974.4	0.275686	0.097983
1975.1	0.275686	0.097983
1975.2	0.275686	0.097983
1975.3	0.275686	0.097983
1975.4	0.297220	0.106707
1976.1	0.308008	0.109047
1976.2	0.315599	0.130644
1976.3	0.315599	0.130644
1976.4	0.357222	0.139254
1977.1	0.364114	0.140679
1977.2	0.364114	0.140679
1977.3	0.364114	0.140679
1977.4	0.413655	0.157671
1978.1	0.422632	0.160750
1978.2	0.422632	0.160750
1978.3	0.445376	0.163212
1978.4	0.649015	0.196053
1979.1	0.675168	0.201013
1979.2	0.675168	0.201013
1979.3	0.675168	0.201013
1979.4	0.800812	0.236189
1980.1	0.827674	0.243709
1980.2	0.827674	0.243709
1980.3	0.827674	0.243709
1980.4	0.827674	0.268098
1981.1	0.827674	0.273938
1981.2	0.827674	0.273938
1981.3	0.877279	0.303937
1981.4	0.877658	0.346711
1982.1	0.877658	0.350283
1982.2	0.877658	0.431940
1982.3	0.877658	0.449892
1982.4	0.877658	0.458357
1983.1	0.877658	0.449892
1983.2	0.877658	0.483140
1983.3	0.877658	0.490156
1983.4	0.877658	0.490156
1984.1	0.877658	0.490156
1984.2	0.877658	0.490156
1984.3	0.877658	0.490156
1984.4	0.877658	0.490156
1985.1	0.877658	0.490156

1985.2	0.902057	0.513911
1985.3	0.952557	0.563080
1985.4	0.952557	0.563080
1986.1	0.952557	0.563080
1986.2	0.952557	0.696085
1986.3	0.952557	0.763485
1986.4	0.952557	0.759228
1987.1	0.952557	0.759228
1987.2	0.952557	0.759228
1987.3	0.952557	0.759228
1987.4	0.952557	0.759228
1988.1	0.952557	0.759228
1988.2	0.952557	0.759228
1988.3	1.192139	0.867509
1988.4	1.275260	0.905077
1989.1	1.275260	0.905077
1989.2	1.275260	0.905077
1989.3	1.275260	0.905077
1989.4	1.275260	0.905077
1990.1	1.275260	0.905077
1990.2	1.275260	0.905077
1990.3	1.275260	0.905077
1990.4	1.275260	0.905077
1991.1	1.275260	0.905077
1991.2	1.366027	0.913337
1991.3	1.497134	0.925269
1991.4	1.497134	0.925269
1992.1	1.497134	0.925269
1992.2	1.497134	0.925269
1992.3	1.497134	0.925269
1992.4	1.497134	0.925269
1993.1	1.497134	0.925269
1993.2	1.497134	0.925269
1993.3	1.497134	0.925269
1993.4	1.497134	0.925269
1994.1	1.497134	0.927702
1994.2	1.497134	0.935305
1994.3	1.497134	0.935305
1994.4	1.497134	0.935305
1995.1	1.497134	0.935305
1995.2	1.694867	1.420675
1995.3	1.763468	1.589069
1995.4	1.763468	1.589069
1996.1	1.763468	1.591078
1996.2	1.763468	1.591502
1996.3	1.763468	1.591502

1996.4	1.763468	1.591502
1997.1	1.763468	1.593474
1997.2	1.763468	1.593935
1997.3	1.763468	1.593935
1997.4	1.763468	1.593935
1998.1	1.764639	1.588032
1998.2	1.764940	1.586514
1998.3	1.764940	1.586514
1998.4	1.764940	1.586514
1999.1	1.764940	1.586514
1999.2	1.764940	1.586514
1999.3	1.764940	1.586514
1999.4	1.764940	1.586514
2000.1	1.764940	1.586514
2000.2	1.764940	1.586514
2000.3	1.764940	1.586514
2000.4	1.764940	1.586514

**Standard (B) Library Rate
Adjusting Proposed Rates - Full rates
TYAR Revenue Estimates**

Calculation of Postage Pounds		
OCA Volume (pieces)	Weight Per Piece (pounds)	Postage Pounds (pounds)
[1]	[2]	[3]
31,048,987	2.2546454	70,004,456

Calculation of Revenues with raw proposed rates

Rate Unit	Postage Pounds		Proposed Rates [6]	Unadjusted Revenues [7]	Adjusted Factor [8]	Adjusted Revenues [9]	Barcode Leakage [10]	Net Revenue [11]
	FY 1996 % [4]	TYBR Distribution [5]						
First Pound - Single Piece	44.35%	31,048,988	\$1.34	\$41,605,643	1.003520899	\$41,752,133	--	
Second through Seventh Poun	44.89%	31,428,225	\$0.19	\$5,971,363	1.003520899	\$5,992,387	--	
Eighth Pound and over	10.75%	7,527,244	\$0.19	\$1,430,176	1.003520899	\$1,435,212	--	
Total	100.00%	70,004,457	--	\$49,007,183		\$49,179,732	\$10,036	\$49,169,696

Calculation of Revenues with adjusted rates - Set first pound to \$1.13 [12]

Rate Unit	Postage Pounds		Proposed Rates	Unadjusted Revenues	Adjusted Factor	Adjusted Revenues	Barcode Leakage	Net Revenue
	FY 1996 %	TYBR Distribution						
First Pound - Single Piece	44.35%	31,048,988	\$1.13	\$35,085,356	1.003520899	\$35,208,888	--	
Second through Seventh Poun	44.89%	31,428,225	\$0.19	\$5,971,363	1.003520899	\$5,992,387	--	
Eighth Pound and over	10.75%	7,527,244	\$0.19	\$1,430,176	1.003520899	\$1,435,212	--	
Total	100.00%	70,004,457	--	\$42,486,895		\$42,636,487	\$10,036	\$42,626,451

Leakage	\$6,543,245	[13]
Second through Seventh	31,428,225	
Add-on per pound	\$0.21	

Calculation of revenues with adjusted rates [14]

Rate Unit	Postage Pounds		Adjusted Proposed Rates	Unadjusted Revenues	Adjusted Factor	Adjusted Revenues	Barcode Leakage	Net Revenue
	FY 1996 %	TYBR Distribution						
First Pound - Single Piece	44.35%	31,048,988	\$1.13	\$35,085,356	1.003520899	\$35,208,888	--	
Second through Seventh Poun	44.89%	31,428,225	\$0.40	\$12,571,290	1.003520899	\$12,615,552	--	
Eighth Pound and over	10.75%	7,527,244	\$0.19	\$1,430,176	1.003520899	\$1,435,212	--	
Total	100.00%	70,004,457	--	\$49,086,822		\$49,259,652	\$10,036	\$49,249,616

Adjusted Proposed Rate Elements		
Rate Element	Adjusted Rounded Rates	Percent Increase (Decrease)
First Pound - Single Piece	\$1.13	1%
Second through Seventh Poun	\$0.40	-2%
Eighth Pound and over	\$0.19	-14%

Notes:

- [1] OCA Exh. 704, p. 4
- [2] USPS WP-Lib2 (Adra)
- [3] [1]*[2]
- [4] USPS WP-Lib2 (Adra)
- [5] [3] * percentage in[4]
- [6] Proposed rates from p. 1.
- [7] [5]*[6]
- [8] Billing Determinants 1996
- [9] [7]*[8]
- [10] USPS-T-38, WP=Lib10. Volume of currently barcoded * proposed discount of 4 cents
- [11] [9] - [10]
- [12] Set the first pound rate element to \$1.13 and recalculate revenues in the same way as done in steps [4] to [11]
- [13] Distributes the revenues loss caused from adjusting the first pound rate element over the Second through Seventh Pounds.
- [14] Adjust the Second to Seventh Pound rate element by the add-on calculated in [13]; Recalculate revenues.

Library Rate : Proposed Rate Comparison

Weight (lbs)	R94 Rates	Proposed Rates	Percent Change
1	\$1.12	\$1.13	0.89%
2	\$1.53	\$1.53	0.00%
3	\$1.94	\$1.93	-0.52%
4	\$2.35	\$2.33	-0.85%
5	\$2.76	\$2.73	-1.09%
6	\$3.17	\$3.13	-1.26%
7	\$3.58	\$3.53	-1.40%
8	\$3.80	\$3.72	-2.11%
9	\$4.02	\$3.91	-2.74%
10	\$4.24	\$4.10	-3.30%
11	\$4.46	\$4.29	-3.81%
12	\$4.68	\$4.48	-4.27%
13	\$4.90	\$4.67	-4.69%
14	\$5.12	\$4.86	-5.08%
15	\$5.34	\$5.05	-5.43%
16	\$5.56	\$5.24	-5.76%
17	\$5.78	\$5.43	-6.06%
18	\$6.00	\$5.62	-6.33%
19	\$6.22	\$5.81	-6.59%
20	\$6.44	\$6.00	-6.83%
21	\$6.66	\$6.19	-7.06%
22	\$6.88	\$6.38	-7.27%
23	\$7.10	\$6.57	-7.46%
24	\$7.32	\$6.76	-7.65%
25	\$7.54	\$6.95	-7.82%
26	\$7.76	\$7.14	-7.99%
27	\$7.98	\$7.33	-8.15%
28	\$8.20	\$7.52	-8.29%
29	\$8.42	\$7.71	-8.43%
30	\$8.64	\$7.90	-8.56%
31	\$8.86	\$8.09	-8.69%
32	\$9.08	\$8.28	-8.81%
33	\$9.30	\$8.47	-8.92%
34	\$9.52	\$8.66	-9.03%
35	\$9.74	\$8.85	-9.14%
36	\$9.96	\$9.04	-9.24%
37	\$10.18	\$9.23	-9.33%
38	\$10.40	\$9.42	-9.42%
39	\$10.62	\$9.61	-9.51%
40	\$10.84	\$9.80	-9.59%

OCA Exh. 706
Page 2 of 2

41	\$11.06	\$9.99	-9.67%
42	\$11.28	\$10.18	-9.75%
43	\$11.50	\$10.37	-9.83%
44	\$11.72	\$10.56	-9.90%
45	\$11.94	\$10.75	-9.97%
46	\$12.16	\$10.94	-10.03%
47	\$12.38	\$11.13	-10.10%
48	\$12.60	\$11.32	-10.16%
49	\$12.82	\$11.51	-10.22%
50	\$13.04	\$11.70	-10.28%
51	\$13.26	\$11.89	-10.33%
52	\$13.48	\$12.08	-10.39%
53	\$13.70	\$12.27	-10.44%
54	\$13.92	\$12.46	-10.49%
55	\$14.14	\$12.65	-10.54%
56	\$14.36	\$12.84	-10.58%
57	\$14.58	\$13.03	-10.63%
58	\$14.80	\$13.22	-10.68%
59	\$15.02	\$13.41	-10.72%
60	\$15.24	\$13.60	-10.76%
61	\$15.46	\$13.79	-10.80%
62	\$15.68	\$13.98	-10.84%
63	\$15.90	\$14.17	-10.88%
64	\$16.12	\$14.36	-10.92%
65	\$16.34	\$14.55	-10.95%
66	\$16.56	\$14.74	-10.99%
67	\$16.78	\$14.93	-11.03%
68	\$17.00	\$15.12	-11.06%
69	\$17.22	\$15.31	-11.09%
70	\$17.44	\$15.50	-11.12%

1 CHAIRMAN GLEIMAN: Ms. Collins, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I did.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies of the designated written
11 cross-examination of Witness Collins to the reporter and
12 direct that it be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of Sheryda C.
16 Collins, OCA-T-700, was received
17 into evidence and transcribed into
18 the record.]

19
20
21
22
23
24
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS SHERYDA C. COLLINS
(OCA-T700)

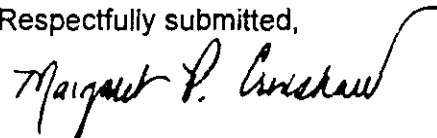
Party

United States Postal Service

Interrogatories

USPS/OCA-T700-1-6

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS SHERYDA C. COLLINS (T700)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/OCA-T700-1
USPS/OCA-T700-2
USPS/OCA-T700-3
USPS/OCA-T700-4
USPS/OCA-T700-5
USPS/OCA-T700-6

Designating Parties:

USPS
USPS
USPS
USPS
USPS
USPS

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-1-3

USPS/OCA-T700-1. At page 14, line 8 of your testimony, you indicate that the rates you propose will provide revenues of "approximately \$9 million less" than the Postal Service's proposed rates. Please indicate where in your exhibits you derive the \$9 million revenue differential. If not shown in your exhibits, please show the calculation of this figure.

A.

\$ 58,489,951
- 49,249,616
\$ 9,240,335

USPS-T-38, WP-Lib 10, page 2
OCA Exh. 705, page 2

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-1-3

USPS/OCA-T700-2. Your testimony proposes a rate of \$1.13 for the first pound of Library Rate Mail.

- a. Why did you select this rate?
- b. Did you consider others?
- c. Please show all calculations used in reaching your decision to select this rate.

A. a.-c. Witness Adra set the rate for the first pound at one cent over his calculated costs. (See USPS-T-38, WPs - Lib 4, page 2 and Lib 5, page 1.) This rate is one cent over the costs shown in OCA-Exh. 701. Also, in the formula used to determine the rates, increases to the first pound rate cause the other pound rates to decrease. I looked at several other possible rates; however, no copies of these runs were saved. I believe that \$1.15 was one I tried. I concluded that the rates proposed in the testimony produced the best results under the circumstances, i.e., a small increase in the first pound rate and small to moderate decreases in the other pound rates.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-1-3

USPS/OCA-T700-3. Please confirm that, as mandated by law, the cost coverage relationship between Library Rate and Standard B Special Rate is different than that between Classroom and Nonprofit Rates. If you do not confirm, please explain fully.

A. Confirmed. See my testimony at footnote 1, page 4; page 7, lines 10 - 11; page 7, lines 14 - 15; page 8, lines 3 - 15; page 10, lines 6 - 8; page 11, lines 18 - 19; and page 11, lines 20 -23.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-4-6

USPS/OCA-T700-4. On page 6, lines 18-20 of your testimony, you state that "witness Degen has acknowledged that the insufficiency of the IOCS sample in estimating costs is *at least as severe for Library Rate as it is for Classroom*" (emphasis added).

a) Have you examined the coefficients of variation (c.v.s) for clerks and mailhandlers mail processing estimated costs from the IOCS, presented by witness Degen in USPS-T-12, pages 13 and 24?

b) Please confirm that the c.v.s for Classroom are approximately 3.5 times larger than the c.v.s for Library rate. If not confirmed, please explain.

A. a.&b. No. The statement quoted above was based on witness Degan's answer to POIR No. 2 as quoted in my testimony at page 6, lines 23-32.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-4-6

USPS/OCA-T-700-5. Please refer to page 10, line 6 of your testimony, where you propose that Special Rate costs should be used as a proxy for Library Rate costs.

a) Is it your understanding that the Second Class Nonprofit estimate was used as a proxy for Classroom

b) Are you aware of any evidence that IOCS tallies of Library Rate mail were erroneous? If so, please provide a specific citation to that evidence.

A. a. No.

b. No.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T700-4-6

USPS/OCA-T700-6. Please refer to page 9, lines 6-8 of your testimony, where you posit that "... each migrating piece will cost at least 19 cents more than the revenue brought in."

a) Please provide the basis for the \$1.43 cited cost per piece for Library Rate mail.

b) Please confirm that the 1996 CRA shows \$1.726 as the unit attributable cost for Library Rate mail. If not confirmed, please explain.

c) Please provide the basis for the \$1.24 cited rate per piece for Special Rate mail.

d) Please confirm that the 1996 CRA shows \$1.763 as the unit revenue for Special Fourth-Class Rate. If not confirmed, please explain.

A. There are several errors contained in the cited paragraph. Errata are being filed today with a corrected page. A copy is attached to the answer to this interrogatory for your convenience.

a. "\$1.43 cost per piece" should be "\$1.43 cost for the first pound of." USPS-T-38, WP - Lib4, page 2 of 2.

b. Confirmed.

c. "\$1.24 rate per piece" should be "\$1.24 cost for the first pound of." USPS-T-38, WP - SR4, page 2 of 2.

d. Confirmed.

1 stated that, "the Postal Service has not conducted any analysis of the increase in
2 Library rate costs in preparation for R97-1."

3 A serious question comes to mind. If the attributable costs for Library Rate
4 are truly reasonable and accurate enough to be used for ratemaking, as witnesses
5 Adra and Degen have testified,⁷ why is the Postal Service so complacent about the
6 migration of Library Rate pieces to the Special Rate subclass when each migrating
7 piece will cost at least 19 cents more than SR pieces for the first pound? (\$1.43
8 cost for the first pound of Library Rate minus \$1.24 cost for the first pound of Special
9 Rate = \$0.19.)

⁷ See, for example, Degen response to POIR No. 2, question 2 and Adra at Tr. 8/4308.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 One participant, the Postal Service, has requested
6 oral cross-examination of the witness. Does anyone else
7 wish to cross-examine?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, then Ms. Reynolds, when
10 you are ready, you can proceed with your cross-examination.

11 MS. REYNOLDS: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION

13 BY MS. REYNOLDS:

14 Q Good afternoon, Ms. Collins.

15 A Good afternoon.

16 Q Just have a couple of questions. In your
17 testimony you discuss the volatility of the IOCS tallies
18 regarding library rate mail, and nowhere in your testimony
19 do you discuss the coefficients of variation for classroom
20 mail versus the coefficients of variation for library rate
21 mail, is that correct?

22 A Correct.

23 Q And in your response to Postal Service
24 Interrogatory Number 4, if I could refer you to that --

25 A Okay, I have it.

1 Q You indicated that as a basis for your
2 determination that the IOCS sample was volatile, you base
3 that on Witness Degen's response to POIR-2, correct?

4 A Correct.

5 Q And not from an examination of the coefficients of
6 variation?

7 A Correct.

8 Q Now as I understand your testimony, your problem
9 with the tallies for library rate mail was basically that
10 there just aren't enough of them, is that correct?

11 A That seems to be the problem, yes.

12 Q Have you found any evidence of any errors in the
13 tallies?

14 A I have not looked at the tallies directly.

15 Q The library rate is entered as single piece, is
16 that correct?

17 A Yes.

18 Q Whereas some special standard mail is bulk entered
19 and presorted?

20 A Correct.

21 Q Now at page 9 of your testimony, if I could refer
22 you to that --

23 A I have it.

24 Q -- you state that "If the attributable cost for
25 library rate are truly reasonable and accurate enough to be

1 used for ratemaking and if the migration occurs, as Witness
2 Adra for the Postal Service has testified that it would,
3 migration from library rate to special rate, the Postal
4 Service will lose 19 cents per piece on every piece that
5 migrates."

6 Is that a correct understanding?

7 A Yes.

8 Q Because that costs us about \$1.43 for the first
9 pound and brings in only a dollar -- would bring in only
10 \$1.24 for the first pound.

11 Now going back to those same assumptions, if the
12 attributable costs for library rate are truly reasonable and
13 accurate enough to be used for ratemaking, and it's still
14 costing the Postal Service \$1.43 for every first pound of
15 library rate, under your proposed rate, which appears at
16 page 14 of your testimony, the Postal Service would only be
17 bringing in \$1.13 for every first pound of library-rate
18 mail. Is that correct?

19 A Yes.

20 Q So under your proposed rates, would the Postal
21 Service be losing 30 cents per piece on every -- or on every
22 first pound of library rate mail?

23 A I don't believe so. I think that the if is a very
24 important part of the beginning of that sentence, and I
25 don't believe that the costs for library rate are what the

1 Postal Service says they are.

2 Q So you're saying that in order to accept the \$1.13
3 rate on page 14 of your testimony we would also have to
4 accept your costs?

5 A Yes, that's what I've asked the Commission to do.

6 MS. REYNOLDS: Okay. We have nothing further.
7 Thank you.

8 CHAIRMAN GLEIMAN: Is there any followup?
9 Questions from the bench?
10 Redirect?

11 MR. RICHARDSON: I have no redirect, Your Honor.

12 CHAIRMAN GLEIMAN: If that is the case, then, Ms.
13 Collins, I want to thank you. We appreciate your appearance
14 here today and your contributions to our record, and if
15 there's nothing further, you're excused.

16 THE WITNESS: Thank you, Mr. Chairman.
17 [Witness excused.]

18 CHAIRMAN GLEIMAN: That concludes today's
19 hearings. We'll reconvene tomorrow, Tuesday the 24th, at
20 9:30, when we're scheduled to receive testimony from
21 Greeting Card Association Witness Erickson, Newspaper
22 Association of America Witness Chown, Office of the Consumer
23 Advocate Witness O'Bannon, United Parcel Service Witness
24 Henderson, and now Parcel Shippers Association Witness
25 Zweig.

1 I want to thank you all for your help today. Have
2 a good afternoon.

3 [Whereupon, at 2:43 p.m., the hearing was
4 recessed, to reconvene at 9:30 a.m., Tuesday, February 24,
5 1998.]

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