DOCKET SECTION

USPS-RT-12

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 1997	Docket No. R97–1

REBUTTAL TESTIMONY OF MICHAEL R. MCGRANE ON BEHALF OF THE UNITED STATES POSTAL SERVICE

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Direct Testimony
of
Michael R. McGrane

AUTOBIOGRAPHICAL SKETCH

My name is Michael R. McGrane. I am a senior economist with Christensen Associates of Madison, Wisconsin. I have been employed by Christensen Associates for eleven years. I previously provided testimony before the Postal Rate Commission on Periodicals costs in Docket No. MC95-1, and on Standard (A) Mail weight related costs and ECR costs in Docket No. R97-1. In addition, I have performed research and provided support for many other analyses presented in Docket Nos. R94-1, MC95-1, MC96-2, MC97-2, and R97-1. This work has included mail volume estimation using the PERMIT and BRAVIS bulk mail systems, cost estimation using the IOCS and other CRA databases, surveys of mail piece characteristics and makeup practices, field surveys of operational practices, and labor rate forecasting.

I received a B.S. in economics from the University of Wisconsin-Madison in May of 1987. I have also completed further courses in economics and computer science at the University of Wisconsin-Madison.

I. Purpose Of Testimony

The purpose of this testimony is to rebut certain portions of the testimony of witness Luciani on behalf of United Parcel Service regarding costs avoided by destination entered Standard (B) Parcel Post, and to rebut witness Andrew on behalf of RIAA et al. and witness Jellison on behalf of Parcel Shippers Association, regarding the comparison between Standard (A) Mail parcel costs and revenues.

II. Mail Preparation Costs Should Not Be Excluded from the Cost Avoidance Calculation for DBMC Parcel Post Mail.

Postal Service witness Crum included outgoing mail preparation costs at AOs and SCFs as costs that can be avoided by DBMC Parcel Post. United Parcel Service witness Luciani argues that these $2,735,000 (LR-UPS-1-IV-A) in costs should be excluded from the avoidance calculation. Mr. Luciani's basic argument for this exclusion is simply that this was how it had always been done (lines 4-6, page 6 of UPS-T-4 and response to USPS/UPS-T4-1). Tradition notwithstanding, outgoing mail preparation costs at AOs and SCFs are costs that are avoided by DBMC Parcel Post.

When DBMC Parcel Post was successfully introduced as a rate category in Docket No. R90-1, witness Acheson was extremely conservative and excluded mail preparation costs from the pool of outgoing costs that DBMC avoids. He did this because of uncertainties as to how DBMC would work and the controversial nature of the then new worksharing option. Now that DBMC is a well-established worksharing rate category, there is no longer a need to be so conservative. The most accurate DBMC cost estimate is obtained by including mail preparation costs at outgoing non-

BMC facilities as avoided costs for DBMC Parcel Post. Mail preparation activities include opening and dumping sacks and rolling containers, culling mail, canceling, separating and breaking down mail, and transporting mail within a facility. These activities are required prior to distribution at each processing facility through which a piece of Parcel Post mail travels. Parcels entered at BMC facilities, such as DBMC Parcel Post, do not pass through these facilities and do not incur these costs. In particular, DBMC Parcel Post will not travel through outgoing SCFs and will not originate in AOs, so it will incur any outgoing mail preparation costs at AOs and SCFs.

In support of his desire to exclude these costs, Mr. Luciani speculates that, "...it is likely that outgoing mail preparation costs at non-BMCs are associated with local intra-BMC parcels that do not travel to the BMC" (Tr. 26/14368). To the contrary, any Parcel Post mail that is entered at AOs and SCFs, local or not, will incur outgoing mail preparation, since the much of the costs for Parcel Post in these facilities falls under the description of mail preparation.

At the SCF, parcels, that are deposited at the window and put in hampers or sacks, will be combined into a BMC container for transportation to the SCF's parent BMC. If local parcels are separated, the address of every parcel that is consolidated for transportation to the BMC must be examined. As witness Hatfield explained, separation of local parcels is often not performed even at the local office (Tr. 8/3973). Regardless of whether or not outgoing mail preparation costs at AOs and SCFs are for local parcels, DBMC parcels will not incur these costs.

III. Mr. Luciani Overstates Outgoing ASF Parcel Costs

Witness Luciani argues that outgoing mail processing costs at ASF facilities are incorrectly included as costs avoided by DBMC Parcel Post. He asks the Commission to reduce the Postal Services estimate of DBMC avoided outgoing costs by over $3.3 million, which he estimates to be the outgoing ASF costs included in the Postal Service's total of almost $24 million. In the next section I will discuss why outgoing ASF costs include costs that will be avoided by DBMC Parcel Post. In this section I will be explain why witness Luciani's estimate of outgoing ASF costs is too high, because he uses a method inconsistent with the way the Postal Service estimates outgoing SCF costs.

Witness Crum estimates outgoing SCF costs using IOCS data in his Exhibit C. In his analysis, ASFs are considered SCFs. His total of approximately $24 million in outgoing mail processing costs can be decomposed between ASFs and other SCFs using IOCS data. I identify the ASFs by finance number and develop separate keys for the distribution of volume variable costs for ASFs and other SCFs within each cost pool. The results of my analysis appear as Exhibit USPS-RT-12A.

The estimate of outgoing ASF costs included in the Postal Services outgoing SCF total is just under $2 million. Witness Luciani develops an outgoing unit cost using flow models presented by witness Daniel, which he multilplies by volumes originating in ASF service areas to obtain an estimate of almost $3.4 million.

Whatever the merits of witness Luciani's modeling effort may be, he cannot subtract his estimate from the Postal Service's estimate of outgoing SCF costs. The two methods are clearly inconsistent as evidenced by the results of my analysis. If witness Luciani believes his method to be superior then he should calculate outgoing SCF costs using his method and subtract from it his outgoing ASF estimate. Given that his method results in a outgoing ASF cost estimate more than 50 percent higher than the Postal Service's method, I would expect that consistent application of his model would increase the pool of DBMC avoided costs even with ASFs removed.

IV. Mr. Luciani Misunderstood the Meaning of ASF Parcel Post Volumes, and Therefore Overstates the ASF Cost Excluded from the Avoidance Calculation

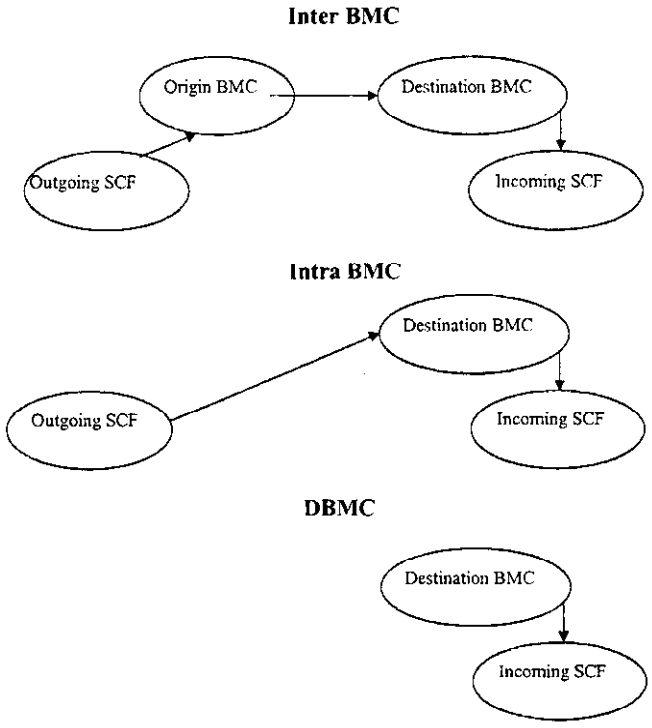
Mr. Luciani estimates outgoing mail processing costs for Parcel Post at ASFs and then argues that these costs should be excluded from the cost avoidance calculation. Because of his improper use of mail volumes, in making this argument he is effectively assuming that for all Parcel Post mail encountered in an outgoing operation at an ASF, that the ASF is acting as a BMC. This is an erroneous assumption. For much of the mail originating in ASF service areas, the function of the ASF facility is more like a SCF than an ASF. I will demonstrate that at a minimum, $918,000 of the $1,981,000 in outgoing ASF costs should be included in the costs that DBMC Parcel Post avoids.

Let us review why all BMC mail processing costs are excluded from the cost avoidance calculation for DBMC Parcel Post. The cost avoidance for DBMC Parcel

Post is calculated relative to intra-BMC Parcel Post costs. Postal Service witness Daniel develops the cost difference between inter-BMC and intra-BMC Parcel Post

Figure 1

PARCEL POST MAIL FLOWS



(Exhibit USPS-T-29E). As shown in Figure 1 above, inter-BMC Parcel Post travels through an origin BMC and a destination BMC, while intra-BMC will only travel through a destination BMC. DBMC Parcel Post is similar to intra-BMC Parcel Post in that it only travels through one BMC. Since the Postal Service assumes that the difference in BMC costs between DBMC Parcel Post and inter-BMC Parcel Post is the same as the difference in BMC costs between inter and intra-BMC Parcel Post, no further accounting of BMCs costs are necessary.[1]

[1] The Postal Service is actually being conservative when asserting that the BMC costs of intra-BMC and DBMC parcels are the same, because witness Luciani has shown in his Exhibit UPS-T-4B that the unit

As shown in Figure 1, DBMC Parcel Post is different than intra-BMC Parcel Post in that it is deposited at the BMC that serves the destination address, thus avoiding the outgoing SCF. Intra-BMC Parcel Post is entered at various AOs and SCFs within the BMC service territory, and incurs costs at these AOs and SCFs before being transported to the BMC. Thus to calculate the additional mail processing costs avoided by DBMC Parcel Post relative to intra-BMC Parcel Post, all outgoing basic function costs at non-DBMCs are considered avoided by DBMC Parcel Post. This is simply the difference between the intra-BMC and the DBMC portions of Figure 1.

UPS witness Luciani argues that ASF costs should be excluded from the costs avoided by DBMC Parcel Post because ASFs function as BMCs, and that the cost difference between inter and intra-BMC parcels is already estimated by witness Daniel. Where witness Luciani is wrong is in his assumption that ASFs always function as BMCs. The ASF volumes witness Luciani uses from Tr. 8/4121-31 are all volumes originating in ASF service areas, regardless of destination. The ASF serves as a BMC for only a portion of these volumes.

Consider a parcel entered at a post office in the Fargo ASF service area and destinating in the Seattle BMC service area. This parcel will travel through an originating SCF (if Fargo is not the originating SCF), the Fargo ASF, the Minneapolis BMC, and the Seattle BMC. These are shown in Figure 2 below as the outgoing SCF, the ASF, the origin BMC and the destination BMC. If the mailer now enters this parcel at the DBMC rate at the Seattle BMC, the parcel avoids the Minneapolis BMC which is

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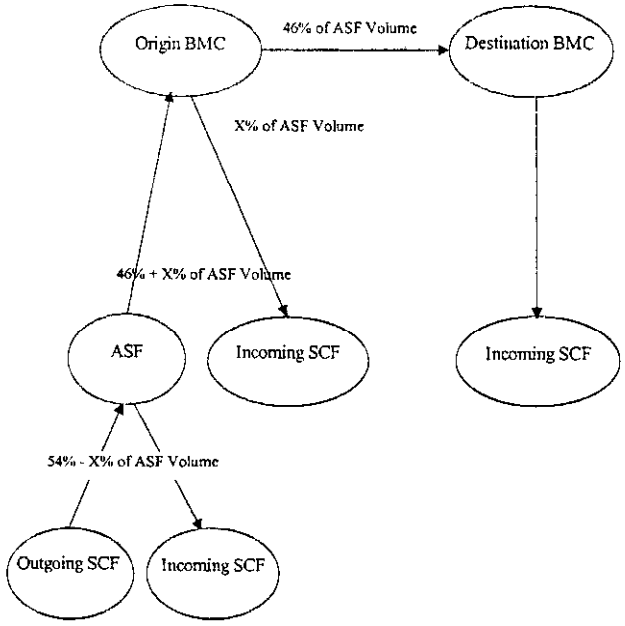
cost of processing DBMC Parcel Post in outgoing operations is lower than intra-BMC Parcel Post by 7.9 cents (Tr. 26/14415).

represented by the origin BMC in figure 2. The costs that the parcel avoids at the Minneapolis BMC are accounted for by the cost difference between inter and intra-BMC Parcel Post, as shown in witness Daniel's testimony. Although this parcel also avoids the Fargo ASF, in this example the Fargo facility serves as an additional originating SCF rather than as a BMC. Witness Luciani would have us improperly exclude this cost from the costs avoided by DBMC Parcel Post.

Figure 2
ASFs ADDED TO PARCEL POST MAIL



When an ASF acts as an SCF, the outgoing mail processing costs should be fully included in witness Crum's DBMC cost avoidance. When an ASF acts as a BMC, the issue is more complicated since outgoing mail processing costs may or may not be avoided by DBMC Parcel Post. While it is true that the Postal Service did not include any DBMC savings at BMCs in the cost avoidance calculation presented in witness

Crum's testimony, witness Luciani's 7.9 cent figure referenced above supports the contention that this was a very conservative choice.

The Fargo ASF to Seattle BMC example described above represents the function of ASFs for most of the inter-BMC Parcel Post volume originating in ASF service areas. Witness Luciani shows the volume of inter-BMC Parcel Post originating at ASF service territories to be 46 percent of the total volume of Parcel Post originating in ASF service areas (Exhibit UPS-T-4B). This portion of the ASF outgoing mail processing cost should be treated as outgoing SCF costs in the DBMC cost avoidance calculation. ASFs can also act as SCFs for both Intra-BMC and DBMC mail. In Figure 2 this is represented by the X% which travels from the ASF to the BMC to the incoming SCF. This X% represents intra-BMC mail that originates in an ASF service area, but destinates in another portion of the ASFs parent BMC service area that is not served by that ASF. Unfortunately, we do not know this proportion. Thus, a conservative approach to deal with the complicated ASF issue would be to take the 46 percent of ASF outgoing mail processing costs of $1,996,000 (i.e. $918,000) as the minimum that should be included in the outgoing costs that DBMC avoids.

V. To Compare Standard Mail (A) Costs by Shape to Standard Mail (A) Revenue by Shape, the Costs and Revenues Should Both Be Adjusted or Neither Be Adjusted for Differences in Presortation and Dropshipping.

Witness Moeller uses witness Crum's stated cost difference between parcels and flats in Standard Mail (A) to support the Residual Shape Surcharge (USPS-T-36, pages 11-15). However, witness Andrew on behalf of RIAA, et al and witness Jellison on behalf of Parcel Shippers Association have chosen to compare the revenues and costs

of Standard (A) parcels and flats included in witness Crum's testimony to evaluate the appropriateness of a residual shape surcharge (RIAA, et al-T-1, at 4 and PSA-T-1 at 27 and 28). Regardless of whether this is an appropriate method to evaluate the surcharge, my testimony demonstrates that if one wishes to make this comparison, the methodology that witness Andrew uses is illogical and his conclusion is unfounded. He compares *unadjusted* revenue to *adjusted* costs, an "apple to orange" comparison. I will demonstrate that an "apples to apples" comparison, using either *unadjusted* costs and revenues or *adjusted* costs and revenues refutes Andrew's contention.

Given the available data, an uncomplicated approach to make this comparison between revenues and costs of Standard (A) parcels is to use the estimated actual Base Year 1996 costs shown in Table 3 and the estimated actual Base Year 1996 revenues shown in Tables 1 and 2 of Exhibit USPS-T-28K of witness Crum's testimony. These data represent the Postal Service's best possible estimates of the actual costs and revenues inclusive of all the dropshipping, presorting, or any other activity that occurred in 1996. The result of this comparison is that in Base Year 1996 parcels cost 40.3 cents[2] per piece more than flats and brought in 24.6 cents[3] per piece more revenue than flats. The 15.7 cent difference between unit costs and unit revenues rebuts witness Andrew's contention that the 10 cent surcharge on parcel-shaped Standard (A) mail is excessive. This is a simple, logical comparison of "an apple to an apple."

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[2] USPS-T-28, page 11. As previously testified by witness Crum this is a conservative estimate.
[3] The unadjusted unit revenue of 24.6 is derived from Table 1 and 2, Exhibit USPS-T-28K.

Witness Crum compares the actual 1996 entry profile for parcels and flats. The weights and volumes presented in Exhibit USPS-T-28K, Table 7 show the degree to which flats are more finely presorted and more deeply dropshipped than parcels. Since witness Crum's goal is to estimate the shape-related cost difference between flats and parcels, he adjusts his cost difference to eliminate any difference caused by dropship and presort. Witness Crum bases his cost difference on the estimated test year presort and dropship savings in USPS-T-29 and LR-H-111, respectively. By making this adjustment, witness Crum estimates that 7.3 cents[4] of the 42.4-cents[5] test year cost difference between parcels and flats is not due to shape, but is due to the differing levels of dropship and presort. Therefore, witness Crum's *adjusted* unit costs are unit costs with the effect of dropship and presort removed.

Witness Andrew states that his *unadjusted* unit revenues can be compared to witness Crum's *adjusted* unit costs (RIAA, et al - T-1, page 7). In other words, witness Andrew takes *actual* 1996 revenues (that include the effect of presort and dropship) and compares them to witness Crum's *adjusted* costs (that do not include the effect of presort and dropship). Although witness Andrew claims his results are evidence that the 10 cent surcharge on Standard (A) parcels is too large; his conclusion is misleading because he uses an illogical comparison of "an apple to an orange."

As can be seen in Exhibit USPS-T-28K, Tables 1 and 2 of witness Crum's testimony, Standard Mail (A) parcels pay more revenue per piece than flats. However

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[4] Exhibit USPS-T-28K, table 7

[5] 42.4 cent test year cost difference is derived by multiplying the 40.3 cent base year cost difference by the test year/base year wage rate adjustment factor of 1.053.

as previously discussed, parcels are less finely presorted and less deeply dropshipped than flats. Since Standard Mail (A) pieces receive discounts for both increasing levels of presort and dropship, one of the reasons that parcels pay more revenue per piece than flats is that they are receiving fewer discounts for the above activities. Therefore both cost differences and revenue differences are affected by the varying levels of presort and dropship between flats and parcels. Witness Andrew does not incorporate this fact into his methodology. While he acknowledges that a portion of the cost difference is due to varying levels of dropship and presort, he ignores the fact that a portion of the revenue difference is due to varying levels of dropship and presort. It does not make sense to compare costs that *do not include* the effects of dropship and presort to revenues that *do include* these effects.

As mentioned above, if one were to consider revenues along with costs, the most straightforward way would be to compare the Base Year *unadjusted* costs and Base Year *unadjusted* revenues. If one still insisted on using the *adjusted* unit costs for the comparison, it is possible to perform a similar analysis with revenues parallel to the Table 7 witness Crum presents for costs. Once a table with adjusted unit revenue difference is constructed, one could evaluate witness Andrew's criticism of the proposed 10-cent surcharge by seeing whether the adjusted unit cost difference exceeds the adjusted unit revenue difference by at least 10 cents.

Exhibit-USPS-RT-12B contains the analysis I performed to estimate the adjusted revenue difference. To make this analysis closely parallel witness Crum's Table 7, a

few simplifications had to be made.[6] The results of the adjusted revenue analysis are shown in the Table 1 below. As shown in the table below, the estimated revenue difference between Standard (A) parcels and flats caused by dropship and presort is 6.8 cents. Subtracting this number from the unadjusted revenue difference, shows that adjusted parcel unit revenue exceeds the flat unit revenue by 17.8 cents. To be consistent with witness Andrew's testimony, I used Andrew's estimate of the base year cost differential between parcels and flats. He calculated this number by dividing witness Crum's adjusted test year cost differential, 35.1 cents,[7] by the base year/test year wage adjustment factor. Witness Andrew's adjusted cost differential, 33.4 cents, exceeds the adjusted rate differential by 15.6 cents per piece. Note that this figure is strikingly similar to the 15.7 cent differential that we derived from the comparison of unadjusted costs to unadjusted revenues. Again, since both figures comfortably exceed the rate differential by more than 10 cents, this analysis can be used to refute witness Andrew's conclusion that the 10 cent surcharge is excessive.

[6] The exhibit is simplified in respect that it assumes that all of the weight is in pound rated flats and parcels for the calculation of revenue difference due to destination entry discounts. This will understate the actual adjustment to revenue if separate minimum rate and pound rate weight are used, because all pieces below the breakpoint receive the discount at the breakpoint regardless of weight.

[7] This number is the difference between 42.4 and 7.3 as discussed on pages 9 and 10 of this testimony.

Table 1: Adjusted Base Year Revenue/Cost Comparison [8]					
Rates	[1] Adjusted unit costs difference between parcels and flats	[2] Unadjusted unit revenue difference between parcels and flats[9]	[3] Estimated revenue difference caused by dropship and presort	[4] Adjusted unit revenue difference between parcels and flats	[5] Difference between adjusted unit revenues and adjusted unit costs
Current Rates	33.4	24.6	6.8	17.8	15.6

[1] Derived by dividing the test year adjusted cost difference 35.1 (USPS-T-29 page 12) by the test year/base year wage adjustment factor of 1.053.
[2] This number is estimated by Andrew in RIAA et al, T-1, page 7, line 20 and can be derived from Table 1 and 2, Exhibit USPS-T-28K.
[3] Exhibit USPS-RT-12B, page 3.
[4] Column [2]-Column [3]
[5] Column [1] - Column [4]

My testimony rebuts witness Andrew's contention that the 10-cent residual surcharge on Standard (A) mail is too high based on a comparison of costs and revenues. In my testimony, I have shown that the methodology witness Andrew uses to reach this conclusion is illogical. He compares *unadjusted* costs to *adjusted* revenues, an 'apple to orange' comparison. I have also demonstrated that the simplest of all comparisons, unadjusted costs to unadjusted revenues, results in evidence to refute witness Andrew's contention. In addition, I have performed an adjusted revenue

[8] This analysis is done in BY1996 and uses current rates. Since rates changed midyear of 1996, I also performed the analysis using pre-classification rates. The result of this analysis was that the difference between adjusted unit revenues and adjusted unit costs is 13.7 as shown in Exhibit USPS-RT-12C. Since this difference is greater than 10 cents, it could also be used as evidence to refute witness Andrew's contention that the 10 cent surcharge is too large.
[9] Unadjusted unit revenue difference between parcels and flats is derived from Table 1 and 2, Exhibit USPS-T-28K. These numbers reflect revenue for the entire year, and therefore reflect a mix of pre-reclassification rates and current rates.

analysis similar to witness Crum's adjusted cost analysis, and have shown that these results can also be used to refute witness Andrew's contention.

Development of Standard (B) Parcel Post Mail Processing Costs by Basic Function

			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
			Direct Tally IOCS Costs by Basic Function Non-DBMC Parcel Post									Variable Mail Proc. Costs w/ Piggyback	Variable Costs Distributed =1/9*10	=2/9*10	=3/9*10	=4/9*10	=5/9*10	=6/9*10	=7/9*10	=8/9*10	
			At Non-ASFs				At ASFs						At Non-ASFs				At ASFs				
	Group	Pool	Outgoing	Incoming	Transit	Other	Outgoing	Incoming	Transit	Other	Total		Outgoing	Incoming	Transit	Other	Outgoing	Incoming	Transit	Other	No Key
1	mods	bcs/	-	-	-	-	-	-	-	-	-	40	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	40
2	mods	express	-	-	-	-	-	-	-	-	-	13	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	13
3	mods	fsm/	265	291	-	-	-	-	-	-	556	1,264	602	662	-	-	-	-	-	-	-
4	*mods*	*lsm/*	51	-	-	-	-	-	-	-	51	90	90	-	-	-	-	-	-	-	-
5	mods	manf	157	338	-	-	-	-	-	-	494	686	217	468	-	-	-	-	-	-	-
6	mods	manl	63	458	-	-	-	-	-	-	521	603	73	530	-	-	-	-	-	-	-
7	mods	manp	955	2,947	-	-	66	63	-	-	4,032	3,271	775	2,391	-	-	54	52	-	-	-
8	mods	mecparc	-	842	-	-	-	-	-	-	842	1,177	-	1,177	-	-	-	-	-	-	-
9	mods	ocr/	-	-	-	-	-	-	-	-	-	5	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	5
10	mods	priority	79	208	-	-	-	-	-	-	287	356	98	257	-	-	-	-	-	-	-
11	mods	spbs Oth	303	326	-	-	-	-	-	-	628	679	327	352	-	-	-	-	-	-	-
12	mods	spbsPrio	129	126	-	-	84	-	-	-	339	994	378	369	-	-	247	-	-	-	-
13	mods	BusReply	-	68	-	-	-	-	-	-	68	152	-	152	-	-	-	-	-	-	-
14	mods	INTL	52	21	48	-	-	-	-	-	121	227	97	39	91	-	-	-	-	-	-
15	mods	LD15	-	-	-	-	-	-	-	-	-	-									-
16	mods	LD41	-	-	-	-	-	-	-	-	-	0	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	0
17	mods	LD42	62	-	-	-	-	-	-	-	62	22	22	-	-	-	-	-	-	-	-
18	mods	LD43	524	4,977	66	59	-	315	-	-	5,940	10,081	888	8,446	112	101	-	534	-	-	-
19	mods	LD44	-	114	-	-	-	-	-	-	114	163	-	163	-	-	-	-	-	-	-
20	mods	LD48 Exp	-	231	-	-	-	52	-	-	283	9	-	8	-	-	-	2	-	-	-
21	mods	LD48 Oth	99	439	-	-	-	-	-	-	538	346	64	282	-	-	-	-	-	-	-
22	mods	LD48_SSv	-	58	-	-	-	-	-	-	58	34	-	34	-	-	-	-	-	-	-
23	mods	LD49	296	98	-	-	-	-	-	-	395	590	443	147	-	-	-	-	-	-	-
24	mods	LD79	59	-	-	-	51	-	-	-	111	445	238	-	-	-	206	-	-	-	-
25	mods	MAILGRAMS	-	72	-	-	-	-	-	-	72	246	-	246	-	-	-	-	-	-	-
26	mods	Registry	4	-	28	4	-	-	-	-	37	34	4	-	26	4	-	-	-	-	-
27	*mods*	*REWRAP*	-	-	-	-	-	-	-	-	-	3	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	3
28	mods	1Bulk pr	-	-	-	-	-	-	-	-	-	15	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	15
29	mods	1CancMPP	555	121	-	-	-	-	-	-	677	885	726	159	-	-	-	-	-	-	-
30	mods	1EEQMT	66	-	-	-	-	-	-	-	66	746	746	-	-	-	-	-	-	-	-
31	mods	1MISC	72	70	-	-	-	-	-	-	142	732	373	359	-	-	-	-	-	-	-
32	mods	1OPbulk	399	332	-	-	-	-	-	-	731	1,951	1,066	886	-	-	-	-	-	-	-
33	*mods*	*1OPpref*	487	949	-	-	-	-	-	-	1,435	3,096	1,050	2,046	-	-	-	-	-	-	-
34	mods	1Platfrm	1,534	2,480	384	-	255	312	-	-	4,965	23,539	7,271	11,759	1,821	-	1,208	1,479	-	-	-
35	mods	1POUCHNG	356	153	-	-	-	-	-	-	509	2,064	1,443	621	-	-	-	-	-	-	-
36	mods	1SackS_h	370	781	61	25	-	-	-	-	1,236	3,403	1,018	2,150	168	67	-	-	-	-	-
37	mods	1SackS_m	350	148	-	-	57	54	-	-	608	2,814	1,619	683	-	-	264	249	-	-	-
38	mods	1SCAN	3	-	-	-	-	-	-	-	3	47	47	-	-	-	-	-	-	-	-
39	mods	1SUPPORT	132	82	-	-	-	-	-	-	214	887	546	341	-	-	-	-	-	-	-
40	BMCs	nmo	3,877	1,510	-	-	-	-	-	-	5,387	8,158	5,871	2,287	-	-	-	-	-	-	-
41	BMCs	psm	3,098	5,568	-	-	-	-	-	-	8,666	12,191	4,358	7,832	-	-	-	-	-	-	-
42	BMCs	spb	1,777	806	-	-	-	-	-	-	2,583	3,710	2,552	1,158	-	-	-	-	-	-	-
43	BMCs	ssm	552	893	-	-	-	-	-	-	1,444	3,489	1,333	2,157	-	-	-	-	-	-	-
44	BMCs	Othr	6,446	5,171	41	113	-	-	-	-	11,771	23,723	12,992	10,421	82	228	-	-	-	-	-
45	BMCs	Pta	1,993	4,395	976	-	-	-	-	-	7,365	20,917	5,662	12,484	2,771	-	-	-	-	-	-
46	Non Mods		1,086	10,632	203	-	-	-	-	-	11,920	19,183	1,747	17,110	326	-	-	-	-	-	-
	Total		26,251	45,703	1,806	201	513	796	-	-	75,271	153,081	54,740	88,175	5,397	400	1,978	2,316	-	-	76
													0.358	0.576	0.035	0.003	0.013	0.015	-	-	0.000

Variable Mail Processing Cost for Zone Parcel Post
by Basic Function and Office Type

	Outgoing	Incoming	Transit	Other	Total	Percent of Costs
MODS	20,249	34,769	2,220	172	57,410	37.5%
ASFs	1,981	2,319	-	-	4,300	2.8%
BMCs	32,769	36,338	2,853	228	72,188	47.2%
Non-MODS	1,747	17,110	326	-	19,183	12.5%
Total	56,746	90,536	5,399	400	153,081	
Non-BMC Costs	23,977	54,198	2,546	172	80,893	
BMC Costs	32,769	36,338	2,853	228	72,188	

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
FY 1996 Standard Mail (A) Regular and Commercial

1) Weight by Entry Discount
(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	1,209,819	1,357,705	2,093,648	962,762	5,623,935
Parcels	351,584	106,122	35,905	2,078	495,688

2) Per pound discounts (Ratefold Notice 123, October 12, 1997)

None	BMC	SCF	DDU
$0.000	$0.064	$0.085	$0.111

3) Discounts (= (1) * (2))

	None	BMC	SCF	DDU	Total	vg. Discount per Piece	
Flats	$0	$86,893	$177,960	$106,867	$371,720	0.014	(3a) = (3) total / (4) total
Parcels	$0	$6,792	$3,052	$231	$10,074	0.011	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Table 1)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,178,231	162,210	2,405,130	6,460,139	8,290,968	742,221	7,269,917	26,508,816
Parcels	266,451		602,983		54,488	1,815	13,161	938,898

5) Presort Rate differences $ / pc (Ratefold, Notice 123 October 12,1997)
(from piece/pound pieces weighing more than .2068 pounds)

Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
$0.000	$0.029	$0.081	$0.117	$0.148	$0.156	$0.166

6) Presort Rate Differences (= (4) * (5))

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	$0	$4,704	$194,816	$755,836	$1,227,063	$115,786	$1,206,806	$3,505,012	$0.132	(6a) = (6) total / (4) total
Parcels	$0	$0	$48,842	$0	$8,064	$283	$2,185	$59,374	$0.063	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences In Entry and Presort Profile

7a) $0.003 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))
7b) $0.069 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))
7c) $0.072 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
FY 1996 Standard Mail (A) Nonprofit Mail

1) Weight by Entry Discount
(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	205,574	45,811	74,668	8,040	334,093
Parcels	13,910	1,936	1,290	30	17,167

2) Per pound discounts (Ratefold Notice 123, October 12, 1997)

None	BMC	SCF	DDU
$0.000	$0.062	$0.088	$0.114

3) Discounts (= (1) * (2))

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	$0	$2,840	$6,571	$917	$10,328	$0.005	(3a) = (3) total / (4) total
Parcels	$0	$120	$114	$3	$237	$0.005	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Table 2)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	374,716	25,368	586,414	584,210	430,455	4,231	178,126	2,183,520
Parcels	18,260		24,100		1,099	0	290	43,749

5) Presort Rate differences $ / pc (Ratefold, Notice 123 October 12,1997)
(from piece/pound pieces weighing more than .2068 pounds)

Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
$0.000	$0.024	$0.052	$0.076	$0.087	$0.094	$0.100

6) Presort Rate Differences (= (4) * (5))

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	$0	$609	$30,494	$44,400	$37,450	$398	$17,813	$131,162	$0.060	(6a) = (6) total / (4) total
Parcels	$0	$0	$1,253	$0	$96	$0	$29	$1,378	$0.031	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile

7a) -$0.001 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))
7b) $0.029 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))
7c) $0.028 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
Sum of Regular, Commercial, and Nonprofit

3) Discounts (Sum over Regular and Nonprofit)

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	$0	$89,733	$184,531	$107,783	$382,047	$0.013	(3a) = (3) total / (4) total
Parcels	$0	$6,912	$3,165	$234	$10,311	$0.010	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Tables 1 & 2)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,552,947	187,578	2,991,544	7,044,349	8,721,423	746,452	7,448,043	28,692,336
Parcels	284,711	0	627,083	0	55,587	1,815	13,451	982,647

6) Presort Rate Differences (Sum over Regular and Nonprofit)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	$0	$5,313	$225,309	$800,236	$1,264,513	$116,184	$1,224,619	$3,636,174	$0.127	(6a) = (6) total / (4) total
Parcels	$0	$0	$50,095	$0	$8,160	$283	$2,214	$60,752	$0.062	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile

7a) $0.003 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) $0.065 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) $0.068 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
FY 1996 Standard Mail (A) Regular and Commercial

1) Weight by Entry Discount
(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	1,209,819	1,357,705	2,093,648	962,762	5,623,935
Parcels	351,584	106,122	35,905	2,078	495,688

2) Per pound discounts (Ratefold Notice 123, January 1995)

None	BMC	SCF	DDU
0	0.066	0.092	0.119

3) Discounts (= (1) * (2))

	None	BMC	SCF	DDU	Total	vg. Discount per Piece	
Flats	0	89,609	192,616	114,569	396,793	0.015	(3a) = (3) total / (4) total
Parcels	0	7,004	3,303	247	10,555	0.011	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Table 1)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,178,231	162,210	2,405,130	6,460,139	8,290,968	742,221	7,269,917	26,508,816
Parcels	266,451		602,983		54,488	1,815	13,161	938,898

5) Presort Rate differences $ / pc (Ratefold, Notice 123 January 1995)
(from piece/pound pieces weighing more than .2068 pounds)

Basic	*Basic-Auto*	*3/5 Digit*	*3/5-Auto*	*Carrier*	*125 Walk*	*Saturation*
0	0.029	0.052	0.071	0.104	0.10900	0.121

6) Presort Rate Differences (= (4) * (5))

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	0	4,704	125,067	458,670	862,261	80,902	879,660	2,411,263	0.091	(6a) = (6) total / (4) total
Parcels	0	0	31,355	0	5,667	198	1,592	38,812	0.041	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile

7a) 0.004 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) 0.050 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) *0.053 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))*

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
FY 1996 Standard Mail (A) Nonprofit Mail

1) Weight by Entry Discount
(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	205,574	45,811	74,668	8,040	334,093
Parcels	13,910	1,936	1,290	30	17,167

2) Per pound discounts (Ratefold Notice 123, January 1995)

None	BMC	SCF	DDU
0	0.06	0.084	0.108

3) Discounts (= (1) * (2))

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	0	2,749	6,272	868	9,889	0.005	(3a) = (3) total / (4) total
Parcels	0	116	108	3	228	0.005	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Table 2)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	374,716	25,368	586,414	584,210	430,455	4,231	178,126	2,183,520
Parcels	18,260		24,100		1,099	0	290	43,749

5) Presort Rate differences $ / pc (Ratefold, Notice 123 January 1995)
(from piece/pound pieces weighing more than .2068 pounds)

Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
0	0.026	0.014	0.032	0.047	0.04900	0.054

6) Presort Rate Differences (= (4) * (5))

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	0	660	8,210	18,695	20,231	207	9,619	57,622	0.026	(6a) = (6) total / (4) total
Parcels	0	0	337	0	52	0	16	405	0.009	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile

7a) -0.001 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) 0.017 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) 0.016 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) +

Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment
Sum of Regular, Commercial, and Nonprofit

3) Discounts (Sum over Regular and Nonprofit)

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	0	92,357	198,888	115,437	406,682	0.014	(3a) = (3) total / (4) total
Parcels	0	7,120	3,412	251	10,782	0.011	(3b) = (3) total / (4) total

4) Pieces by Presort Level (Exhibit USPS-T-28K Tables 1 & 2)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,552,947	187,578	2,991,544	7,044,349	8,721,423	746,452	7,448,043	28,692,336
Parcels	284,711	0	627,083	0	55,587	1,815	13,451	982,647

6) Presort Rate Differences (Sum over Regular and Nonprofit)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece	
Flats	0	5,364	133,277	477,365	882,492	81,109	889,279	2,468,885	0.086	(6a) = (6) total / (4) total
Parcels	0	0	31,693	0	5,718	198	1,608	39,217	0.040	(6b) = (6) total / (4) total

7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile

7a) 0.003 $ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) 0.046 $ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) 0.049 $ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))