

DOCKET SECTION

RECEIVED

MAR 9 4 27 PM '99
USPS-RT-21

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY
OF
ALTAF H. TAUFIQUE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

CONTENTS

	Page
CONTENTS.....	.ii
AUTOBIOGRAPHICAL SKETCH.....	iii
I. PURPOSE OF TESTIMONY	1
II. THE ARBITRARY ALLOCATION OF INSTITUTIONAL COSTS DOES NOT MAKE ECONOMIC SENSE	2
III. WITHIN COUNTY MAIL WILL EXPERIENCE HIGHER RATES AND A MARKUP ABOVE THE LEGAL LIMIT.....	4
IV.WITNESS HENDERSON'S PROPOSAL LEADS TO HIGHER INCREASES FOR BOTH REGULAR RATE AND WITHIN COUNTY PERIODICALS.....	6
V. WITNESSES CHOWN'S AND HENDERSON'S PROPOSALS WOULD TURN THE CLOCK BACKWARD.....	9

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

AUTOBIOGRAPHICAL SKETCH

My name is Altaf H. Taufique. I currently serve as an economist in the office of Pricing at the United States Postal Service. Prior to joining the Postal Service in July 1996, I was employed by the Gulf States Utilities Company (GSU) in Beaumont, Texas from 1980 to 1994. At GSU, I served as an economic analyst in the Corporate Planning department and was subsequently promoted to Economist, Senior Economist and finally to the position of Director, Economic Analysis and Forecasting. My responsibilities at GSU included the preparation of the official energy, load and short-term revenue forecasts, and the economic forecasts for the regions served by the Company. I have testified before the Public Utility Commission of Texas in Austin and the Federal Energy Regulatory Commission in Washington, D.C. My testimony defended GSU's official energy and load forecasts. I have appeared before this Commission in two other Dockets as a rebuttal witness, and I presented testimony on behalf of the Postal Service previously in the current Docket (USPS-T-34). My rebuttal testimony in Docket No. MC96-3 dealt with the issue of Postal Service monopoly in the post office box market and other issues relating to pricing of post office boxes. In Docket No. MC97-5, I rebutted a claim of undue harm to Postal Service's competitors allegedly due to the proposed packaging service. In this Docket my testimony presented the rates for Regular Rate and Within County Periodicals.

1 I received a Master's Degree in Economics from Central Missouri State
2 University in Warrensburg, Missouri in 1976, and a Bachelor's degree in
3 Economics & International Relations from Karachi University in Karachi,
4 Pakistan. I have also completed thirty-three credit hours of coursework towards
5 a Ph.D. in Economics at Southern Illinois University. I taught economics at
6 Chadron State College in Chadron, Nebraska between 1978 and 1980, and
7 during my employment at GSU in Texas, I taught courses in economics at Lamar
8 University in Port Arthur, Texas.

1 I. PURPOSE OF TESTIMONY

2

3 The purpose of my testimony is to rebut the testimonies of NAA witness
4 Chown and UPS witness Henderson. Witness Chown proposes a method for
5 allocating institutional costs based on mail classes' utilization of various postal
6 functions and develops a new set of weighted attributable costs to which a
7 judgmental mark-up is applied. The institutional cost contributions produced by
8 the markup are then to be added to the unweighted attributable costs to meet the
9 overall revenue requirement.

10 I begin by demonstrating the economic weakness of Ms. Chown's
11 methodology through a simple example of a small business faced with a similar
12 issue. Subsequently, I present the results of using witness Chown's approach on
13 Within County Periodical rates. Depending on the Commission's exercise of
14 judgment, the resulting cost coverage for Within County Periodical mail may not
15 only be significantly higher, but also is virtually certain not to meet the
16 requirement of the law requiring the markup for preferred classes to be half the
17 markup of the comparable commercial class.

18 My testimony then challenges Dr. Henderson's approach to the allocation
19 of institutional costs, which results in a significant rate shock for Regular Rate
20 along with a substantial rate increase for preferred Within County Periodicals. I
21 present rate charts resulting from the application of witness Henderson's
22 proposed mark-up indices and attributable costs. Finally, I discuss the pricing
23 approaches proposed by both witnesses Chown and Henderson and their impact
24 on the logic and economics of worksharing discounts as adopted by the Postal

1 Service and the Commission. I conclude that the proposals of these witnesses
2 needlessly threaten the correct discount pricing signals developed by the Postal
3 Service in cooperation with the Postal Rate Commission and the mailing
4 community.

5
6 II. THE ARBITRARY ALLOCATION OF INSTITUTIONAL COSTS PROPOSED
7 BY WITNESS CHOWN DOES NOT MAKE ECONOMIC SENSE.
8

9 The problem with the allocation of institutional cost raised by witness
10 Chown's proposal can be understood with a simple example. A restaurant
11 owner decides to install a fifteen thousand dollar counter because this would
12 add to the ambiance of the restaurant, allow her the space for a cash register,
13 and also provide the space for customers who come in for a cup of coffee. After
14 the installation of the counter, she realizes this counter can also be used to
15 display some retail items such as candy, chewing gum, etc. for sale, which will
16 add to the bottom line for her business. The following question describes the
17 pricing dilemma : In pricing the retail items, should the cost of this new counter
18 be included in the cost of these items (based on some proportion of usage)
19 before a mark-up is applied for pricing purposes?

20 An accounting approach comparable to that proposed by witness Chown
21 would be to fully distribute the cost of the counter and make the buyers of the
22 retail items pay their proportional cost for the counter, plus a mark-up on these
23 items. Doing so would drastically increase the prices charged for the gum and
24 other retail items, and would result in buyers purchasing such items from another

1 establishment. In such case, the additional revenue that these items could have
2 contributed to the bottom line would be lost, and the cost of the counter,
3 nevertheless, must be fully recovered from the activity in the restaurant.

4 The sound economic approach would be to analyze whether the cost of
5 the counter that would have been assigned to the retail products would go away,
6 if the enterprise stopped selling the retail items. Since the cost of the counter is a
7 cost which would be there regardless of the sale of retail items, then this cost
8 should be treated as overhead and should not be used to burden the retail
9 products. The owner could add to her bottom line by selling the retail items at
10 competitive prices, i.e., by applying a mark-up to the additional (or marginal)
11 cost.

12 Within the context of the Postal Service's cost structure, the institutional
13 cost of the delivery network is like the restaurant's counter, which would have to
14 be paid for regardless of any one class of mail being offered. The institutional
15 cost of the delivery network is linked to the existence of the Postal Service, not
16 the existence of a particular class of mail. Burdening a particular class of mail
17 with this institutional cost, as proposed by witness Chown (through the use of
18 weighted attributable costs) does not make economic or business sense, and
19 would undermine the sensible approach to discount pricing followed to this point
20 by the Postal Service and the Postal Rate Commission.

1

2 III. WITHIN COUNTY MAIL WILL EXPERIENCE HIGHER RATES AND A
3 MARKUP ABOVE THE LEGAL LIMIT.

4

5 Witness Chown calculates the weighted attributable costs for Within
6 County mail to be 59 percent higher than the TYAR attributable cost used by the
7 Postal Service. Exhibit NAA-1D in witness Chown's testimony provides the
8 weighted attributable cost of \$129.401 million, compared to the Postal Service
9 TYAR cost of \$81.360 million (Exhibit NAA-1A). I use her weighted attributable
10 costs and the Postal Service cost coverage of 107 percent to calculate the dollar
11 amount of institutional cost to be recovered from the Within County Periodicals
12 subclass. The resulting markup as applied to the TYBR attributable cost is 4.6
13 percent, 59 percent above the 2.9 percent proposed by the Postal Service in this
14 Docket.

15 Witness Chown makes no judgment regarding the relative level of the
16 institutional costs contribution to be recovered from each of the subclasses and
17 thus does not recommend specific rates. The use of her proposed weighted
18 attributable costs for applying markups, though, would alter the contribution and
19 resulting rates for the preferred Within County subclass. It is clear that the
20 resulting rates would be higher and the actual markup would exceed the legal
21 requirement¹ (50 percent of comparable commercial subclass). In what follows, I

¹ Given the level of weighted attributable costs for Regular Rate and Within County Periodicals any non-zero markup for Regular Rate Periodicals would exceed the legal limit.

1 present an example using the USPS proposed markup of 7 percent for Regular
2 Rate Periodicals to calculate Within County rates.

3 I employ a three-stage process to derive the final rates for Within County
4 using witness Chown's weighted attributable costs. First, her proposed
5 attributable cost of \$129.401 million is divided by the TYAR volume of 901.870
6 million pieces to derive a per unit weighted attributable cost of \$0.143, which is
7 multiplied by the TYBR volume of 911.204 million pieces to derive the TYBR
8 weighted attributable cost of \$130.740 million. Second, the dollar amount of
9 institutional cost to be recovered from the Within County subclass is calculated
10 using 50 percent of the markup of the commercial class (as required by law). The
11 proposed markup for Regular Rate Periodicals is 7 percent, which leads to a 2.9
12 percent markup for Within County for step 5 applicable in the test year. The
13 *dollar amount to be recovered based on Chown's proposed weighted attributable*
14 *cost and the markup required by law is \$3.791 million (.029 multiplied by*
15 *\$130.740 million). The actual TYBR attributable costs are \$82.273 million.*
16 Therefore, the step 5 cost coverage turns out to be 104.6. As I have stated
17 earlier, this cost coverage, based on witness Chown's proposed methodology, is
18 59 percent higher than the Postal Service's proposed cost coverage of 102.9
19 percent in the test year.

20 Finally, I use this cost coverage in my spreadsheets (LR-H-205,
21 2c_wc_x1) to calculate the final rates for Within County. This process requires
22 me to assume an 11 percent $((4.6*(6/5)*2=11)$ cost coverage for Regular Rate
23 Periodicals, because, in my spreadsheets, the cost coverage for the preferred

1 classes is calculated using the Regular Rate cost coverage and the applicable
2 step for the test year². The results of this analysis are presented in Exhibit RT-
3 8A. The top table on the Exhibit provides a comparison of USPS proposed rates
4 to the current rates. The second table makes a comparison of rates based on
5 Witness Chown's methodology to the current rates.

6 Witness Chown's proposal to use the weighted attributable cost to
7 allocate institutional costs is not only economically unsound, but is certain to lead
8 to larger increases in all rate cells for the preferred subclass of Within County
9 Periodicals, and the resulting cost coverage (calculated on actual attributable
10 cost) is drastically higher than the legally required markup.

11
12 **IV. WITNESS HENDERSON'S PROPOSAL LEADS TO HIGHER INCREASES**
13 **FOR BOTH REGULAR RATE AND WITHIN COUNTY PERIODICALS.**

14
15
16 Dr. Henderson's proposal rests upon three major components.

- 17
18 1. He proposes to use 100 percent volume variability for mail processing.
19
20 2. He proposes to use the incremental costs rather than the attributable cost
21 proposed by the Postal Service and recommended by the Commission in
22 previous omnibus proceedings, or the volume variable cost proposed by the
23 Postal Service in this Docket.
24
25 3. He utilizes the markup indices recommended by the Commission in Docket
26 No. R94-1 to recommend his alternative markups, presented in his Exhibit
27 UPS-T-3B.
28
29

² My analysis can be replicated using the spreadsheets that were filed with my original testimony in LR-H-205 by changing the Regular Rate cost coverage in line 11 to 1.11 of the 'rate design input' sheet in 2c_wc_x1.

1 I use a similar approach in deriving the rates for Regular Rate and
2 Within County Periodicals based on Dr. Henderson's recommended markups.
3 This approach was used earlier when analyzing the effect of witness Chown's
4 weighted attributable cost proposal, with two exceptions. First, Dr. Henderson
5 provides TYAR volumes that result from his pricing recommendation, and I use
6 those volumes to calculate the TYBR costs used in my rate calculations. Second,
7 Within County rates are based on witness Henderson's attributable costs
8 adjusted for volume differences and 50 percent of his proposed mark-up index
9 for Regular Rate periodicals, but the resulting cost coverage is higher than
10 presented in his analysis. It appears that his mechanical use of R94-1 markup
11 indices neglects the fact that R94-1 rates were based on step 2 of RFRA while
12 the test year in the current Docket requires the use of step 5.

13 The TYBR costs of \$1,766.603³ million and \$89.437⁴ million are
14 calculated for Regular Rate and Within County respectively using Dr.
15 Henderson's TYAR cost and volume estimates. Once again, using the same
16 spreadsheets provided in LR-H-205 (2c_rr_x9 for Regular Rate & 2c_wc_x1 for
17 Within County), I have calculated the final rates for both Regular Rate and Within
18 County Periodicals as they would appear if Dr. Henderson's proposal were
19 adopted by the Commission. The top table on Exhibit RT-8B reflects the

³ Dr. Henderson estimates \$1,714 million for the incremental costs and the associated volume of 6959 million pieces which calculates to \$0.246 per piece. This is multiplied by TYBR volume of 7173 million pieces to derive the TYBR cost for Regular Rate Periodicals based on his proposal.

⁴ Dr. Henderson measures \$85 million for the incremental costs and the associated volume of 866 million pieces which calculates into \$0.098 per piece. This is multiplied by TYBR volume of 911 million pieces to derive the TYBR cost for Within County Periodicals based on his proposal.

(continued...)

1 comparison of USPS proposed rates with currently applicable rates. The second
2 table makes a similar comparison based on Dr. Henderson's proposal. Exhibit
3 RT-8C contains the same information for Within County Periodicals.

4 Although Dr. Henderson does not discuss the effect of his proposal on the
5 Periodicals class in the body of his testimony, his Exhibit UPS-T-3B shows a
6 hefty increase the rates for all Periodical subclasses. His proposal would lead to,
7 on average, a 25 percent increase for Regular Rate Periodicals and a 10 percent
8 increase for Within County mailers.

9 Periodicals in the recent year have experienced relatively large increases
10 in attributable costs, and the Postal Service is committed⁵ to objectively
11 evaluating the cause of these increases. The lower-than-historical cost coverage
12 proposed for Periodicals in this Docket reflects in part the concerns of the
13 Service to avoid major disruptions in this industry. The mechanical approach of
14 using the markup indices from Docket R94-1 proposed by Dr. Henderson will
15 lead to inappropriate increase for Periodical mailers, and I recommend that the
16 Commission reject his approach.

17 I recognize that witnesses Chown and Henderson may not have intended
18 such substantial increases in Periodical rates, and, in fact, may believe some
19 adjustments are in order. However, they neither have mentioned such

(...continued)

⁵ For instance, Witness Degan's testimony (USPS-RT-6, pages 40-45) notes several initiatives underway to address cost and service issues.

1 adjustments, nor have they provided a mechanism to make such adjustments.

2 As such, their analyses, are flawed.

3 V. WITNESSES CHOWN'S AND HENDERSON'S PROPOSALS WOULD
4 TURN THE CLOCK BACKWARD.

5
6 As a relative newcomer to the Postal Service, I was surprised to find the
7 degree to which the Postal Service has shifted mail preparation and processing
8 costs to the lower-cost providers by offering various worksharing discounts and
9 keeping its delivery network access price non-discriminatory. In many instances,
10 where the mailers can perform the work cheaper (or more efficiently), they have
11 been able to bypass those functions and enter the mail downstream. Critics
12 could argue that the process has not worked perfectly, but when we evaluate the
13 competing interests that are required to be balanced under the pricing criteria, it
14 has worked remarkably well, especially with mailers electing to do part of the
15 work themselves.

16 Witness Chown's proposal, which would indirectly lead to the allocation of
17 institutional cost, which as I have stated earlier, does not make economic or
18 business sense. It would also provide wrong pricing signals to the mailers that
19 bypass one or more postal functions, and enter their mail downstream. I strongly
20 recommend that the Commission reject the proposal.

21 Witness Henderson relies on mechanical use of the markup indices from
22 the previous omnibus case. This would severely limit the use of judgment used
23 by the Postal Service and the Commission in the allocation of institutional cost
24 given the changes that may have taken place (costs, market conditions, change

- 1 in technology etc.). I would recommend to the Commission to reject such a
- 2 mechanical approach.

WITHIN-COUNTY RATES PROPOSED RATES vs. CURRENT RATES					
Rate Element	Type		Proposed Step 5	Current Rate Step 5	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS		0.117	0.112	4.5%
GENERAL	POUNDS		0.130	0.122	6.6%
Level BASIC NON-AUTOMATION	PIECES		0.090	0.082	9.8%
Level BASIC AUTOMATION LETTERS	PIECES		0.062	0.082	-24.4%
Level BASIC AUTOMATION FLATS	PIECES		0.077	0.082	-6.1%
Level 3 DIGIT NONAUTOMATION	PIECES		0.079	0.082	-3.7%
Level 3 DIGIT AUTOMATION LETTER	PIECES		0.060	0.078	-23.1%
Level 3 DIGIT AUTOMATION FLAT	PIECES		0.066	0.067	-1.5%
Level 5 DIGIT NONAUTOMATION	PIECES		0.076	0.082	-7.3%
Level 5 DIGIT AUTOMATION LETTER	PIECES		0.058	0.065	-10.8%
Level 5 DIGIT AUTOMATION FLAT	PIECES		0.062	0.067	-7.5%
LEVEL CARRIER ROUTE	PIECES		0.044	0.044	0.0%
LEVEL HIGH DENSITY	PIECES		0.040	0.039	2.6%
LEVEL SATURATION	PIECES		0.038	0.037	2.7%
WKSHARING DISCNTDELIVERY OFFICE EN	Discounts		(0.004)	-0.003	33.3%
WKSHARING DISCNT SCF ENTRY	Discounts		na	na	
Editorial Percentage Piece Percentage	Discounts		na	na	

SECTOR CROWN'S PROPOSAL vs. CURRENT RATES					
Rate Element	Type		Chown Step 5	Current Rate Step 5	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS		0.119	0.112	6.3%
GENERAL	POUNDS		0.132	0.122	8.2%
Level BASIC NON-AUTOMATION	PIECES		0.091	0.082	11.0%
Level BASIC AUTOMATION LETTERS	PIECES		0.063	0.082	-23.2%
Level BASIC AUTOMATION FLATS	PIECES		0.078	0.082	-4.9%
Level 3 DIGIT NONAUTOMATION	PIECES		0.080	0.082	-2.4%
Level 3 DIGIT AUTOMATION LETTER	PIECES		0.061	0.078	-21.8%
Level 3 DIGIT AUTOMATION FLAT	PIECES		0.067	0.067	0.0%
Level 5 DIGIT NONAUTOMATION	PIECES		0.077	0.082	-6.1%
Level 5 DIGIT AUTOMATION LETTER	PIECES		0.059	0.065	-9.2%
Level 5 DIGIT AUTOMATION FLAT	PIECES		0.063	0.067	-6.0%
LEVEL CARRIER ROUTE	PIECES		0.045	0.044	2.3%
LEVEL HIGH DENSITY	PIECES		0.041	0.039	5.1%
LEVEL SATURATION	PIECES		0.039	0.037	5.4%
WKSHARING DISCNTDELIVERY OFFICE EN	Discounts		(0.004)	-0.003	33.3%
WKSHARING DISCNT SCF ENTRY	Discounts		na	na	na
Editorial Percentage Piece Percentage	Discounts		na	na	na

Note: The above rates are based on a cost coverage of 104.58 calculated based on witness Chown's proposal. See USPS-RT-21, page 5, lines 12 thru 16

Periodicals: Regular Rates

USPS-R1-
EXHIBIT RT-21B

USPS PROPOSAL VS. CURRENT RATES				
Rate Element	Type	Rates	Current	Percent Change
		USPS Proposal	Rates	
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.158	0.169	-6.5%
ZONED ADVRTSG SCF	POUNDS	0.180	0.190	-5.3%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.203	0.214	-5.1%
ZONED ADVRTSG ZONE 3	POUNDS	0.216	0.224	-3.6%
ZONED ADVRTSG ZONE 4	POUNDS	0.251	0.251	0.0%
ZONED ADVRTSG ZONE 5	POUNDS	0.305	0.292	4.5%
ZONED ADVRTSG ZONE 6	POUNDS	0.361	0.336	7.4%
ZONED ADVRTSG ZONE 7	POUNDS	0.416	0.388	7.2%
ZONED ADVRTSG ZONE 8	POUNDS	0.474	0.432	9.7%
NONADVERTISING	POUNDS	0.174	0.161	8.1%
BASIC NON-AUTOMATION	PIECES	0.263	0.240	9.6%
BASIC AUTOMATION LETTER	PIECES	0.182	0.194	-6.2%
BASIC AUTOMATION FLAT	PIECES	0.221	0.209	5.7%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.217	0.202	7.4%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.166	0.173	-4.0%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.188	0.175	7.4%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.214	0.202	5.9%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.162	0.173	-6.4%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.186	0.175	6.3%
CARRIER ROUTE BASIC	PIECES	0.128	0.119	7.6%
CARRIER ROUTE HIGH DENSITY	PIECES	0.116	0.111	4.5%
CARRIER ROUTE SATURATION	PIECES	0.102	0.095	7.4%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.059	-0.057	3.5%
WKSHARING DISCNTDELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%

HENDERSON PROPOSAL VS. CURRENT RATES				
Rate Element	Type	Henderson	Current	Percent Change
		Proposed	Rates	
ZONED ADVRTSG DELIVERY UNIT	POUNDS	0.224	0.169	32.5%
ZONED ADVRTSG SCF	POUNDS	0.250	0.190	31.6%
ZONED ADVRTSG ZONES 1&2	POUNDS	0.272	0.214	27.1%
ZONED ADVRTSG ZONE 3	POUNDS	0.286	0.224	27.7%
ZONED ADVRTSG ZONE 4	POUNDS	0.321	0.251	27.9%
ZONED ADVRTSG ZONE 5	POUNDS	0.374	0.292	28.1%
ZONED ADVRTSG ZONE 6	POUNDS	0.430	0.336	28.0%
ZONED ADVRTSG ZONE 7	POUNDS	0.485	0.388	25.0%
ZONED ADVRTSG ZONE 8	POUNDS	0.543	0.432	25.7%
NONADVERTISING	POUNDS	0.194	0.161	20.5%
BASIC NON-AUTOMATION	PIECES	0.298	0.240	24.2%
BASIC AUTOMATION LETTER	PIECES	0.217	0.194	11.9%
BASIC AUTOMATION FLAT	PIECES	0.256	0.209	22.5%
BASIC NON-AUTOMATION 3 DIGIT	PIECES	0.252	0.202	24.8%
BASIC AUTOMATION 3 DIGIT LETTER	PIECES	0.201	0.173	16.2%
BASIC AUTOMATION 3 DIGIT FLAT	PIECES	0.223	0.175	27.4%
BASIC NON-AUTOMATION 5 DIGIT	PIECES	0.249	0.202	23.3%
BASIC AUTOMATION 5 DIGIT LETTER	PIECES	0.197	0.173	13.9%
BASIC AUTOMATION 5 DIGIT FLAT	PIECES	0.221	0.175	26.3%
CARRIER ROUTE BASIC	PIECES	0.183	0.119	37.0%
CARRIER ROUTE HIGH DENSITY	PIECES	0.151	0.111	36.0%
CARRIER ROUTE SATURATION	PIECES	0.137	0.095	44.2%
PERCENTAGE EDITORIAL DISCOUNT	PIECES	-0.071	-0.057	24.8%
WKSHARING DISCNTDELIVERY OFFICE ENTRY	PIECES	-0.023	-0.021	9.5%
WKSHARING DISCNT SCF ENTRY	PIECES	-0.012	-0.011	9.1%

Note: The above rates are based on witness Henderson's proposed cost coverage of 115.6 - Exhibit UPS-T-3B

WITHIN-COUNTY USPS PROPOSED RATES vs. CURRENT RATES					
Rate Element	Type		Proposed Step 5	Current Rate Step 5	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS		0.117	0.112	4.5%
GENERAL	POUNDS		0.130	0.122	6.6%
Level BASIC NON-AUTOMATION	PIECES		0.090	0.082	9.8%
Level BASIC AUTOMATION LETTERS	PIECES		0.062	0.082	-24.4%
Level BASIC AUTOMATION FLATS	PIECES		0.077	0.082	-6.1%
Level 3 DIGIT NONAUTOMATION	PIECES		0.079	0.082	-3.7%
Level 3 DIGIT AUTOMATION LETTER	PIECES		0.060	0.078	-23.1%
Level 3 DIGIT AUTOMATION FLAT	PIECES		0.066	0.067	-1.5%
Level 5 DIGIT NONAUTOMATION	PIECES		0.076	0.082	-7.3%
Level 5 DIGIT AUTOMATION LETTER	PIECES		0.058	0.065	-10.8%
Level 5 DIGIT AUTOMATION FLAT	PIECES		0.062	0.067	-7.5%
LEVEL CARRIER ROUTE	PIECES		0.044	0.044	0.0%
LEVEL HIGH DENSITY	PIECES		0.040	0.039	2.6%
LEVEL SATURATION	PIECES		0.038	0.037	2.7%
WKSHARING DISCNTDELIVERY OFFICE E	Discounts		(0.004)	(0.003)	33.3%
WKSHARING DISCNT SCF ENTRY	Discounts		na	na	na
Editorial Percentage Piece Percentage	Discounts		na	na	na

WITHIN-COUNTY USPS HENDERSON PROPOSAL vs. CURRENT RATES					
Rate Element	Type		Proposed Henderson	Current Rate Step 5	Percent Change
ZONED ADVRTSG DELIVERY UNIT	POUNDS		0.132	0.112	17.9%
GENERAL	POUNDS		0.146	0.122	19.7%
Level BASIC NON-AUTOMATION	PIECES		0.097	0.082	18.3%
Level BASIC AUTOMATION LETTERS	PIECES		0.069	0.082	-15.9%
Level BASIC AUTOMATION FLATS	PIECES		0.084	0.082	2.4%
Level 3 DIGIT NONAUTOMATION	PIECES		0.087	0.082	6.1%
Level 3 DIGIT AUTOMATION LETTER	PIECES		0.067	0.078	-14.1%
Level 3 DIGIT AUTOMATION FLAT	PIECES		0.073	0.067	9.0%
Level 5 DIGIT NONAUTOMATION	PIECES		0.083	0.082	1.2%
Level 5 DIGIT AUTOMATION LETTER	PIECES		0.065	0.065	0.0%
Level 5 DIGIT AUTOMATION FLAT	PIECES		0.070	0.067	4.5%
LEVEL CARRIER ROUTE	PIECES		0.051	0.044	15.9%
LEVEL HIGH DENSITY	PIECES		0.047	0.039	20.5%
LEVEL SATURATION	PIECES		0.045	0.037	21.6%
WKSHARING DISCNTDELIVERY OFFICE E	Discounts		(0.004)	(0.003)	33.3%
WKSHARING DISCNT SCF ENTRY	Discounts		na	na	na
Editorial Percentage Piece Percentage	Discounts		na	na	na

Note: The above rates are based on cost coverage of 106.5 - Step 5 and 50 percent of witness Henderson's proposed cost coverage of 115.6 - Exhibit UPS-T-3B