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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2006	))	Docket No. R 2006-1

DIRECT TESTIMONY OF

JAMES A. CLIFTON

ON BEHALF OF

AMERICAN BANKERS ASSOCIATION

AND

NATIONAL ASSOCIATION OF PRESORT MAILERS

September 6, 2006

Table of Contents

Table of Contents i

I. BACKGROUND AND QUALIFICATIONS 1

II. SUMMARY OF TESTIMONY 2

A. Recognition of Shape in First-Class Rates 3

B. Reduced Additional-Ounce Rates for First-Class Mail 3

C. De-Linking Rates between Single-Piece and Presort First-Class Mail 4

D. The USPS Proposed Rates Pass through Significantly Less than 100% of Correctly Measured Costs Avoided Regardless of Whether a De-Linked or Traditional Benchmark Is Used and with either the Commission's or the Postal Service's Volume Variability Assumption 6

III. THE POSTAL SERVICE'S PROPOSAL TO INCREASE RECOGNITION OF SHAPE IN FIRST-CLASS RATES IS APPROPRIATE AND LOGICAL 6

IV. THE POSTAL SERVICE'S PROPOSAL TO DECREASE RECOGNITION OF WEIGHT IN FIRST-CLASS RATES BY REDUCING THE ADDITIONAL-OUNCE RATE IS COST JUSTIFIED AND RESPONDS TO MARKET CONDITIONS 8

V. THE POSTAL SERVICE'S PROPOSAL TO DE-LINK AUTOMATION PRESORT RATES FROM SINGLE-PIECE RATES REFLECTS THE MATURATION OF PRIVATE SECTOR MAIL PROCESSING WITHIN THE FIRST-CLASS LETTERS SUBCLASS 11

A. Since There is Little or No Remaining Conversion of Single-Piece to Presort, Rates for Presort Mail Should Be De-Linked from Rates for Single-Piece Mail 11

B. Factors That Should Control the Determination of First-Class Automation Presort Rates Now and in the Future in the Absence of Conversion 16

VI. COST POOL CLASSIFICATION ISSUES IN MEASURING COSTS AVOIDED 23

A. Which Cost Pools Vary by the Level of Presort? 23

B. ABA and NAPM Cost Pool Classifications 27

VII. INCREMENTAL PASSTHROUGHS OF COSTS AVOIDED FOR SIX BENCHMARKS SUPPORT THE USPS–PROPOSED RATES FOR WORKSHARING LETTERS 34

A. Why the Proposed Rates Should be Evaluated in This Case Using a Multiplicity of Benchmarks if the Commission Chooses Not to Accept De-linking....34

B. Model One....36

C. Model Two....38

D. Model Three....39

E. Model Four....40

F. Models Five and Six....45

LIST OF TABLES

Table One: Rates for 3-D & 5-D by Weight Increments 10

Table Two: ABA-NAPM Mail Processing Cost Pool Classifications De-Linked Benchmark 28

Table Three: ABA-NAPM Mail Processing Cost Pool Classifications Single-Piece Benchmark 29

Table Four: Passthroughs of Proposed Rates Using USPS Assumptions 37

Table Five: Passthroughs Using Originating PRC Delivery Costs Avoided ... 38

Table Six: Passthroughs with Heterogeneous AVC Benchmark 40

Table Seven: Passthroughs Using Full Metered Benchmark 44

Table Eight: Passthroughs Using Metered Benchmark with Non-Auto Delivery 45

Table Nine: Passthroughs Using Metered Benchmark with Machinable Non-Auto 46

LIST OF FIGURES

Figure 1: First-Class Automation Presort Mail Letters Additional-Ounce Rates and Unit Costs R2000-1 to R2006-1 9

Figure 2: First-Class Automation Presort Mail Additional-Ounce Rates and Unit Costs R2000-1 to R2006-1 9

Figure 3: Share of Non-Automation Presort in Total Presort Letters 15

Figure 4: Volume of Single-Piece vs Presort Letters 17

Figure 5: First-Class Total Unit Attributable Cost Differences..... 19

Figure 6: First-Class Mail Processing Unit Attributable Cost Differences: All Shapes and Letters 20

Figure 7: First-Class Delivery Unit Attributable Cost Differences: All Shapes and Letters 21

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I. BACKGROUND AND QUALIFICATIONS

My name is James A. Clifton. I am President of the Washington Economics Consulting Group, Inc. (WECG). The firm is devoted to regulatory and economic policy analysis as well as litigation support services. Before this Commission, I have testified on five previous occasions. In Docket No. R90-1, I presented direct testimony on behalf of McGraw-Hill, Inc. In the R94-1 rate case, I presented rebuttal testimony on behalf of the American Bankers Association, and in MC95-1 I presented direct testimony on behalf of the Greeting Card Association. In R97-1, I presented direct testimony on behalf of the American Bankers Association, National Association Presort Mailers, Newspaper Association of America, and Edison Electric Institute. In R2000-1 I presented testimony on behalf of the American Bankers Association and National Association of Presort Mailers.

My professional experience includes three years with the U.S. Chamber of Commerce as a senior regulatory economist (1979-1983), three years as Republican Staff Director of the House Budget Committee (1983-1986), and four

years as President of the Center for Industrial Competitiveness, a non-profit foundation (1986-1990). In the consulting arena, I was principal associate at Nathan Associates from 1990-1991, an academic affiliate of the Law and Economics Consulting Group from 1992-1995, and an independent consultant from 1987-1990 and 1996-1997.

I have also been Associate Professor of Economics and Business at The Catholic University of America, from 1992 through 1997. My other academic experience includes Assistant Professor of Economics at the University of Maine-Orono (1975-1978), and Visiting Professor at Cambridge University during 1977.

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

II. SUMMARY OF TESTIMONY

The USPS rate proposals for bulk-entered First-Class Mail in this case are fully supported using a variety of benchmarks for measuring cost avoidance and a proper classification of mail processing cost pools. De-linking would make significant progress in the proper recognition of all cost differentials in First-Class rate design, not just those affected by the degree of presortation. The Commission should recommend those rates, and support de-linking. In an automated environment, shape determines mail processing costs more than weight at least within the current 3.3 ounce limit on Automation First-Class Mail. The Commission should recommend shape based rates for First Class letters,

and de-emphasize weight as a cost driver, as it has done for some time in setting Standard Mail rates.

A. Recognition of Shape in First-Class Rates

Economic efficiency requires that all significant cost-causing differences between the attributes of two categories of mail be recognized in differentials between the rates for those two categories. Shape has become a very important driver of mail processing costs under automation. Thus, the Postal Service's proposal to recognize at least a portion of shape-related cost differences in the First-Class rate structure is an important step toward greater economic efficiency and sending better price signals to mailers. Greater recognition of shape will also enable the Postal Service to compete more effectively against electronic competition by reducing First-Class rates for heavier-weight pieces, as the Postal Service has proposed in this case.

B. Reduced Additional-Ounce Rates for First-Class Mail

The Postal Service's proposal in this case to de-emphasize weight in the First-Class rate design is a proper recognition of the principle that where a mail characteristic has only a limited effect on cost, the rate element incorporating that mail characteristic should not exceed the cost differential. No other ratemaking considerations warrant making an exception to this principle unless there is some other reason to do so—such as the recognition of demand characteristics, or other considerations specified by 39 U.S.C. § 3622(b). No such reasons exist in this case. Additional ounces in letters cost the Postal Service very little, especially in an automated mail processing environment.

Moreover, a reduced additional-ounce rate for First Class bulk letters would enable First-Class Mail to compete more effectively against the Internet, and to attract volume from Standard Mail, by encouraging mailers to insert more solicitation matter along with statements entered at First-Class rates. By reducing the cost of such a dual-purpose mailing to the mailer, the reduced additional-ounce rate will enable the Postal Service to compete more effectively against the Internet for bill presentment, financial statements and similar communications.

C. De-Linking Rates between Single-Piece and Presort First-Class Mail

An equally important advance in cost recognition is the Postal Service's proposal to de-link rates for Single-Piece and Presorted First-Class mail. Presort Mail is a mature set of rate categories. Because there is little if any remaining conversion of Single-Piece to Presort evident in the volume dynamics of either Presort or Single-Piece, some other principle than discounting from Single-Piece must be found to set rates for Presort.

ABA and NAPM have long maintained that one key principle for rate setting should be the recognition that the average attributable costs for Presort and Single-Piece differ significantly. This is true for mail processing and delivery costs, the focus of the current "linked" methodology. It is also true for the total unit attributable cost gap between Presort and Single-Piece, which is not only large, but becoming ever larger over time.

The average costs of the two categories differ because of a host of mail characteristics that go beyond pre-barcoding and presorting. These factors include shape, length of haul, the method of purchasing postage (retail channel), and the method of showing payment on the mailpiece (stamps/meter/permit

imprint). The cost effects of most of these attributes are either not recognized fully in the First-Class rate structure (e.g., shape, even in the rates proposed by the USPS) or are not recognized in any rate element at all (e.g., length of haul and method of postage evidencing). As a result of these factors, the average cost difference between Single-Piece and Presort is now about 16 cents per piece—about 8 cents per piece more than the average rate differential between the two categories.[1] Failing to recognize these cost differences either in explicit rate elements or in the average rate differential between the two rate categories is inefficient and unfair. The Postal Service's de-linking proposal is a significant step forward toward fuller recognition of these cost differences.

If the Commission nonetheless rejects de-linking, and continues to rely on a collection mail benchmark rate category to set Presort Mail rates, the most appropriate benchmark for this case is Single-Piece letters generally, not bulk metered mail or metered mail generally. The non-auto presort data used as a proxy for metered mail delivery costs is inaccurate and unreliable, a problem mitigated by a general Single-Piece benchmark. Furthermore, metered and Single-Piece mail processing costs are converging.

[1] See ABA-NAPM-T-1, Workpaper 9, Worksheet, "BY2005 Average Discount &Cost". The R 2005-1, PRC Test Year average cost difference was 18 cents per piece—about 10 cents per piece more than the average rate differential between the two categories. See R 2005-1 Opinion and Recommended Decision, Appendix F, page4.

D. The USPS Proposed Rates Pass through Significantly Less than 100% of Correctly Measured Costs Avoided Regardless of Whether a De-Linked or Traditional Benchmark Is Used and with either the Commission's or the Postal Service's Volume Variability Assumption

Regardless of whether if the Commission adheres to the current "avoided cost" standard, the costs avoided by prebarcoding and presorting exceed the rate differentials proposed by the Postal Service, and by significant amounts for each Presort rate category, under any plausible benchmark. This is because (a) the current avoided cost standard utilizes highly problematic non-automation presort data as a proxy for benchmark delivery costs, and (b) the mail processing cost studies sponsored by the Postal Service significantly understate actual presort-related cost avoidances. The Postal Service has simply *assumed* that many cost pools are unaffected by the degree of presorting. Moreover it has not recognized in this case any relationship between delivery cost savings and the level of presortation.

I have developed alternative cost avoidance estimates based on more realistic assumptions about presort cost avoidances. These estimates show that, for a variety of plausible benchmarks including de-linked, Single-Piece and metered, presort cost avoidances significantly exceed all of the Presort rate differentials proposed by the Postal Service, on an incremental cost basis. Moreover, they do so under either the Postal Service's or the Commission's assumptions about mail processing cost variability.

III. THE POSTAL SERVICE'S PROPOSAL TO INCREASE RECOGNITION OF SHAPE IN FIRST-CLASS RATES IS APPROPRIATE AND LOGICAL

In this case the Postal Service has proposed a rate design that would recognize for the first time a significant share of the differences in the attributable

costs of handling First-Class Mail that is caused by the shape of the mailpiece. I support this proposal, which is long overdue. Recognizing some of the cost effects of shape in First-Class rates will produce price signals that are better aligned with true costs and encourage mailers to make more efficient mailing decisions.

Current rates for First-Class Mail fail to reflect the differences in attributable cost caused by shape. Indeed, USPS witness Taufique's testimony indicates that current rates for lighter-weight First-Class flats and parcels may not even cover attributable costs. Taufique Direct (USPS-T-32), page 17, lines 15-16. Recognizing shape-related cost differences in the rate structure will give mailers price signals that encourage more efficient choices between letters, flats and parcels. With 4.5 billion flats and 500 million parcels entered at First-Class rates each year, the benefits are likely to be significant.

In addition to the Postal Service's compelling cost-based argument for shape based rates in First-Class Mail, there is also a compelling *market based* reason: Recognition of shape will help the Postal Service to compete more effectively against electronic competition. Just since 2002, the Postal Service has lost 280 million pieces of high contribution statements mail to various forms of electronic competition, a 4% decline. (USPS, Household Diary Study 2003 Chapter 5 & 2004 & 2005 Chapter 4: Transactions) Much of this lost volume consists of financial statement and invoice mail, including monthly bank statements, in letter-shaped envelopes. Competing aggressively on price is the only realistic means available to the Postal Service to slow the erosion of statements to the Internet.

Greater recognition of shape has the further benefit of freeing enough revenue to enable the Postal Service to lower the additional ounce rate for First–Class Mail. Lowering the additional ounce rate is likely to attract volume from (or

slow the loss of volume to) Standard Mail and the Internet. See pages 8 through 11 below.

Moreover, the initial effort at shape-based rates proposed in this case by the Postal Service does not impose any unreasonable "rate shocks." Mailers have been on notice that basing rates more on shape and less on weight was under serious consideration as a result of several broadly attended USPS sessions on what it has been calling "Product Redesign" and a number of reports to the Mailers Technical Advisory Committee over the past five years.[2] Furthermore, the proposed rates for First-Class Mail would still leave a considerable share of shape-related cost differences unrecognized in rate differentials. Deferring full recognition of these shape-related cost effects (and other cost drivers) avoids any undue rate shock in this case.

IV. THE POSTAL SERVICE'S PROPOSAL TO DECREASE RECOGNITION OF WEIGHT IN FIRST-CLASS RATES BY REDUCING THE ADDITIONAL-OUNCE RATE IS COST JUSTIFIED AND RESPONDS TO MARKET CONDITIONS

I support the Postal Service's proposal to reduce the additional-ounce rates for work-shared First-Class Mail. Although the Postal Service did not update its additional-ounce cost studies for Presort letters in this case, one can readily do so. Using the information from my testimony for ABA&NAPM in R2000-1 (R2000-1, ABA&NAPM-T-1, Page 52, Table Ten), I updated the estimated costs of the second and third ounces by multiplying the test year values for Test Year R2001-1 by the percentage increase in the USPS wage index from R2000-1 to test year 2008.

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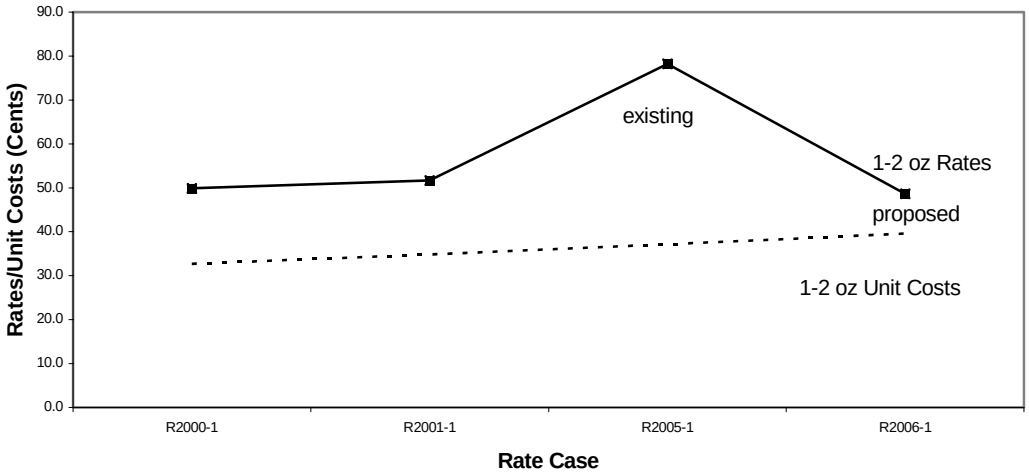
[2] See MTAC minutes for the meetings of November 2001; February, May, August, and November 2002; February and August 2003; and February 2004.

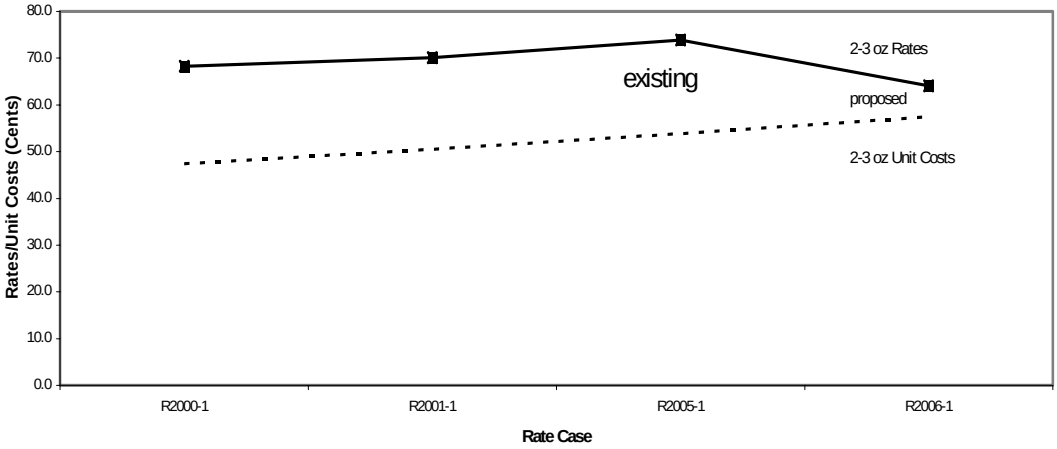
The results appear below in Figure 1 for the second ounce and Figure 2 for the third ounce. The proposed rates for additional-ounce Presort letters are above the Presort costs for the second ounce and also for the third ounce.[3] The proposed rates are therefore cost justified.

Figure 1
First Class Automation Presort Mail Letters
Additional-Ounce Rates and Unit Costs
R2000-1 to R2006-1



Source: ABA-NAPM-T-1, Workpaper 9.

Figure 2
First Class Automation Presort Mail Letters
Additional-Ounce Rates and Unit Costs
R2000-1 to R2006-1



Source: ABA-NAPM-T-1, Workpaper 9.

[3] I did not perform a separate analysis for mail weighing more than three ounces since the percentage of presort letters that weigh more than three ounces is very small.

Reducing the additional-ounce rate should encourage banks, credit card issuers, and other business mailers to include more advertising inserts in statement mail. The following table compares the current and proposed 3 digit and 5 digit rates for a bulk entered mail statement weighing 1.5 ounce and 2.5 ounce. The table shows that the lower additional-ounce rate proposed by the Postal Service will reduce the price of sending a 1.5 ounce bank statement by 10.8% (3-digit) and 11.9% (5-digit). For the 2.5 ounce statement, the rate decreases will be 13.3% and 14.1%, respectively. These decreases will encourage mailers to insert more advertising matter in statements and similar mailpieces, and thus help First-Class Mail compete more effectively against electronic diversion.

Table One
Rates for 3-D & 5-D by Weight Increments

Weight	3-Digit		5-Digit	
Increments (Ounce)	Current/ Proposed (Cents)	Percentage Difference (Percent)	Current/ Proposed (Cents)	Percentage Difference (Percent)
1 – 2	54.5/48.6	10.8%	53.0/46.7	11.9%
2 – 3	73.9/64.31	13.3%	72.4/62.2	14.1%

Source: ABA-NAPM-T-1, Workpaper 9.

Reducing the additional-ounce rate should also help stem the flow of certain advertising mail to *Standard* Mail. The diversion of bulk advertising mail from First-Class to Standard Mail, a class of service with a much lower average contribution per piece, has been a growing problem for the Postal Service in

recent years. That trend may be increasing in the banking industry.[4] The first ounce rate proposed for workshared First-Class letter mail and the piece rate increase proposed for Standard A Regular will do little to alter the relative price advantage of Standard Mail. However, the reduction in the additional-ounce rate makes it relatively more attractive to add advertising stuffers to First-Class letters rather than sending such advertising as stand alone pieces at Standard Mail rates.

The contribution to institutional costs from one advertising message sent at the First-Class additional ounce rate would require four Standard mailpieces to equal that contribution. Thus, there is little danger that the additional mail sent at the additional ounce rate will "steal" contribution from Standard Mail. Finally, the reduction in the additional-ounce rate also reduces the average cost per ounce for multi-ounce advertising pieces such as brochures or booklets, and thus should increase the attractiveness of First-Class Mail vis-à-vis Standard Mail for this material.

V. THE POSTAL SERVICE'S PROPOSAL TO DE-LINK AUTOMATION PRESORT RATES FROM SINGLE-PIECE RATES REFLECTS THE MATURATION OF PRIVATE SECTOR MAIL PROCESSING WITHIN THE FIRST-CLASS LETTERS SUBCLASS

A. Since There is Little or No Remaining Conversion of Single-Piece to Presort, Rates for Presort Mail Should Be De-Linked from Rates for Single-Piece Mail

In this case, the Postal Service has proposed to partially[5] "de-link" the setting of First-Class automation rates from the setting of First-Class Single-

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[4] See David Enrich, *Card Firms Curb Mailings—a Bit*, WALL STREET JOURNAL, July 26, 2006 at D3.

[5] I say "partially" because the USPS has disconnected the calculation of the costs of Presort First-Class letters from the costs of Single-Piece by using the Mixed AADC rate instead of Bulk Metered Mail, but it has not disconnected the contribution. The USPS proposed rates retain the recent practice of setting rates

Piece rates. The proposed de-linking is a welcome and overdue step toward fuller recognition of the cost differences between the two mail categories. De-linking makes good economic sense, is a practical idea, and the Commission should approve it.

The traditional justification for using a Single-Piece rate benchmark is that Single-Piece Mail is the category most likely to "convert" to Presort Mail. However, the volume of workshared mail has leveled off. This development is a strong indicator that the vast majority of remaining collection mail is *not* being converted to Presort. The Postal Service's own elasticity data, and the legal barriers to and lack of rate incentives for the private processing of additional collection mail by presort bureaus and other consolidators, provide additional reasons why Single-Piece mail is unlikely to be a source of additional Presort Mail.

First, the volume growth of First-Class Presort letter mail has slowed considerably, as shown below in figure 3 on page 15. Second, the demand elasticity data sponsored in recent omnibus rate cases by Postal Service witness Thress provide further evidence that "conversion" from Single-Piece volume is no longer a significant source of Presort Mail volume. Since R97-1, the equation sponsored by Mr. Thress to estimate the demand for single-piece First-Class Mail has included a term showing the effect of the average worksharing discount on demand. The term has a negative sign, meaning that deeper worksharing discounts cause the demand for single-piece service to decline—i.e., that deeper worksharing discounts induce single-piece mail to convert to Presort Mail.

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for Single-Piece and Presort First-Class Mail so that each piece of Presort First-Class Mail will make approximately the same contribution as each piece of Single-Piece Mail.

The negative sign for the term, however, is not a *result* of the estimated equation, however, but a *restriction* on the equation that Mr. Thress has arbitrarily imposed. However appropriate such an *a priori* restriction may have been in the early years of Presort Mail, it is an incorrect presumption today, and has been for several years. To test empirically the reasonableness of imposing *a priori* a negative sign on the worksharing discount variable, I re-ran the Thress data endogenously, i.e., without the negative restriction imposed. The result for both his R2005-1 and R2006-1 demand equations was a *positive*—and statistically significant—correlation between the magnitude of the worksharing "discount" and the volume of single-piece First-Class Mail. See Workpaper 10, Table 1 and Table 2. The statistical evidence indicates that, ceteris paribus, the higher the discount, the greater (not less) the volume of Single-Piece letters in a mature worksharing environment.

This econometric finding has a strong basis in the facts of business operations today of major bulk mailers of First-Class mail. Analysis of the cycle of First-Class Mail generated by the credit card business may provide some insight into why converted Single-Piece volume no longer is a significant source of Presort Mail volume. A bank or credit card company sends an advertising letter (or, more likely, several letters) by First-Class or Standard Mail soliciting a potential customer to sign up for its credit card. When a prospect signs up, several things happen.

First, a welcome letter generally is sent, as well as the actual plastic card, both at First-Class workshared rates. Eventually, a new statement is generated, typically monthly, and sent at First-Class workshared rates. Further, companies generally send multiple follow up marketing letters to new card members over a several month period at either First or Standard Mail rates. In the above chain of mailings, the additional volume of work-sharing letters is not due to any

conversion of Single Piece. Rather, the extra workshared letters are generated by the normal propensity of firms to grow their businesses.

Indeed, consistent with my econometric analysis, deepening Presort discounts generates more Single-Piece volume in the above example. New Account holders return payments monthly by Single-Piece mail or, increasingly, via on-line bill payment. The extra workshared bills generate a *greater* volume of single-piece letter mail, not less, as assumed in the negative sign of witness Thress' demand equation for Single-Piece mail.[6] In this entire cycle, there is no conversion of Single-Piece letter mail to workshared letter mail.

Like Single-Piece mail generally, Bulk Metered Mail ("BMM")[7] cannot be seriously considered as a potential candidate for conversion to Presort Mail. Even if significant volumes of BMM actually existed—and they do not—it is not in general cost-effective for presort bureaus to collect small amounts of mail (e.g., 100 pieces) each day from scores or hundreds of offices and register all those meter numbers along with other paperwork required by the Postal Service to convert this collection mail to Presort Mail under existing regulations or rate incentives.[8]

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[6] Even if one were to accept Mr. Thress' imposed presumption of conversion, the numerical value of his calculated "discount elasticity" has fallen substantially since R97-1, indicating a lower conversion rate for any given increase in the discount that is trending toward zero and that has come close to zero in one recent model run. See Figure 6 in Workpaper 9 and R2006-1, USPS-T-7, pages 53-54.

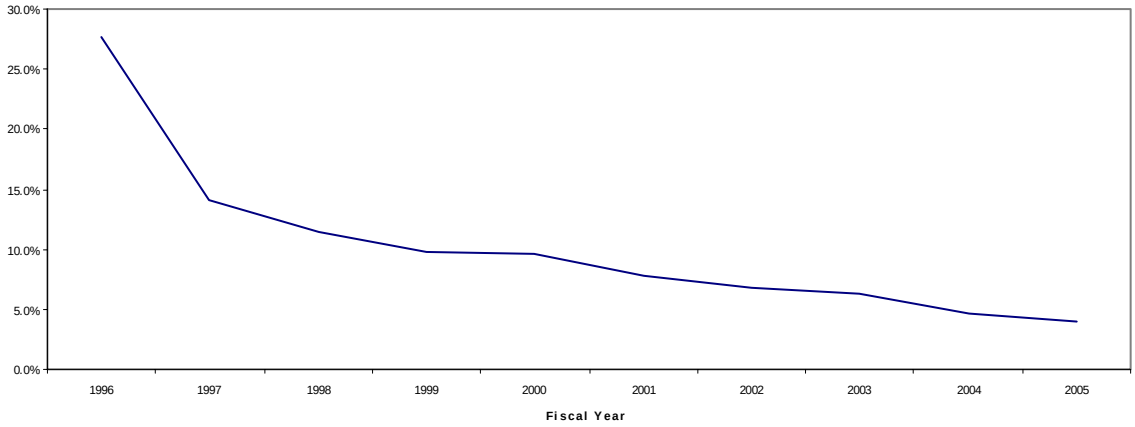
[7] BMM is a theoretical category of single-piece metered mail supposedly entered in large volumes at single-piece rates, properly faced and trayed.

[8] One such regulatory restraint is the absence of value added rebates (VAR) on fully paid First Class letter mail postage. Such a VAR would encourage presort bureaus to gather collection mail in commercial office buildings, thus avoiding upstream mail processing costs for the Postal Service. Another restraint is the absence of a direct rate incentive for consumers and presort bureaus to deposit their mail in presort bureau owned and managed collection mailboxes. ABA and

Similarly, there is no empirical evidence to support the presumption that today's Non-Automation Presort Mail, including machinable Non-auto Presort letters, is a candidate for conversion to Automation Presort letters. In the early years of pre-barcoding, a substantial amount of Non-automation Presort letters converted to Automation Presort letters as major mailers and presort bureaus purchased or leased MLOCRs. That is no longer true. Today, Non-automation Presort letters today are a residual rate category of mail, like Mixed AADC letters. The relatively small remaining volumes of Non-auto Presort letters are in many cases actually prebarcoded so there is no issue of conversion. Rather, they are "problem" letters that, for one reason or another, did not qualify for automation rates.

Moreover, major mailers and presort bureaus have increasingly worked with the Postal Service over time to eliminate the problems that cause mail to fail to qualify for automation rates. Thus, less and less Non-automation Presort Mail exists, as shown in Figure 3, and that mail that does exist is residual mail. Residual mail is not a likely candidate for conversion.

Figure 3
Share of Non-Automation Presort in Total Presort Letters



Sources: ABA-NAPM-T-1 Workpaper 9

NAPM proposed such a rate incentive with its "P stamp" proposal in the R2000-1 rate case. (See R2000-1, ABA&NAPM-T-1, pp. 35-42.)

Yet, despite the business facts, metered mail benchmarks for estimating Automation Presort discounts still use non-auto presort delivery cost data as proxies for metered mail delivery cost data as if such Non-auto Presort letters were still candidates for conversion in some material way. The Non-auto Presort cost data are very inaccurate, a point discussed at length below in Section VII, model 4.

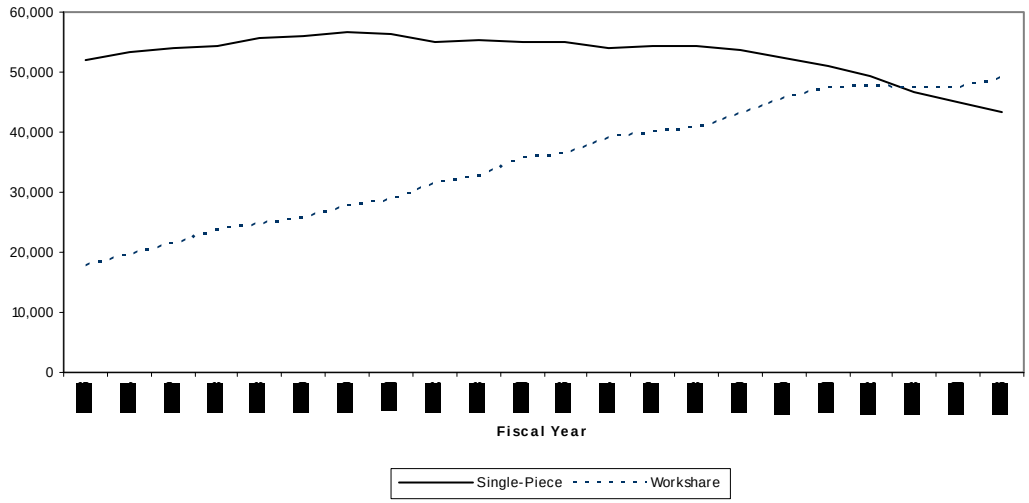
In the absence of rate and classification changes that would make it both legal and practical to convert Single-Piece collection mail into Presort Mail, it no longer makes sense to employ a discount methodology that assumes there is still a link between these two First-Class letter mailstreams and hence a need to base rates on the presumption of further conversion possibilities. Today, no such link exists, and none has existed for quite a while.

B. Factors That Should Control the Determination of First-Class Automation Presort Rates Now and in the Future in the Absence of Conversion

Presort discounts have always been calculated with reference to the category of mail whose cost characteristics dominate the cost characteristics of the letters subclass as a whole. In the past, the predominant component of First-Class letter mail was Single-Piece mail. This is no longer true. Today, prebarcoded and presorted letter volumes are greater than Single-Piece volumes. Today, the costs of prebarcoded letter mail, not Single-Piece mail, are the dominant influence on the cost characteristics of the letters subclass as a whole.

There is now substantially more pre-barcoded bulk letter mail in First Class than Single-Piece mail, including all metered and non-metered mail. In FY2005, Automation Presort First-Class letters mail accounted for 49 billion pieces—almost 6 billion more than Single-Piece letters (43 billion pieces).[9] The volume mix prevailing in MC95-1, when Single-Piece letters substantially outnumbered prebarcoded letters (54.931 and 36.413 billion pieces, respectively), has inverted. While the ratio then was 60/40 in favor of Single-Piece, it is now 55/45 in favor of Presort.

Figure 4
Volume of Single-Piece vs Presort Letters
(millions of pieces)



Automation Presort Mail's dominance in First-Class Mail volumes requires a fundamental rethinking of the choice of a rate benchmark in this case. This is true, regardless of whether the Commission accepts the Postal Service's de-linking proposal. In 1995, Single-Piece letters dominated the cost characteristics for the letters subclass as a whole. Both the Postal Service and the Commission created an automation discount in MC95-1 to encourage greater prebarcoding. It worked. Today Presort letters, not Single-Piece, now dominate the cost

[9] R2006-1, USPS-LR-L-74.

characteristics for the letters subclass as a whole. Just as the attributable costs of Single-Piece mail are one major factor influencing the determination of Single-Piece rates, at this point in history, the same criterion should hold true for the determination of Automation Presort rates. They should reflect total unit attributable costs for Presort more than any notion of "costs avoided".

Moreover, the costs of Automation Presort letters are affected by many characteristics beyond the degree of presortation. As USPS witness Taufique has noted:

> The comparison of costs as reported for Single-Piece Letters and for Presort Letters does not simply reflect the cost avoided by the Postal Service when a mailer chooses to perform worksharing activities, such as presorting or applying a barcode. Because the costs are developed in total, they reflect the full range of differences between the two sets of mail – differences perhaps unrelated to the actual worksharing activity but reflective of the different cost characteristics of business-originated mail entered in large quantities, as compared to those of single-piece mail. These cost characteristics may reflect such things as the number of postal facilities through which the mail traverses, the proportion of the mail transported via air rather than ground transportation, the readability of the mail, the proportions of the mail that are undeliverable-as-addressed, the utilization of retail facilities for entry, etc.

Taufique Direct (USPS-T-32), page 14, lines 6-17.

Figures 5 to 7 below show a growing cost gap between Single-Piece and Presort First-Class Mail in total unit attributable costs (Figure 5) as well in the cost components now used to set Presort rates: mail processing costs (Figure 6) and delivery costs (Figure 7). These three graphs show, on the basis of trend-line analysis, that CRA cost differences between Presort and Single-Piece continue to grow, a fact not fully recognized in the design of First-Class letter rates.[10]

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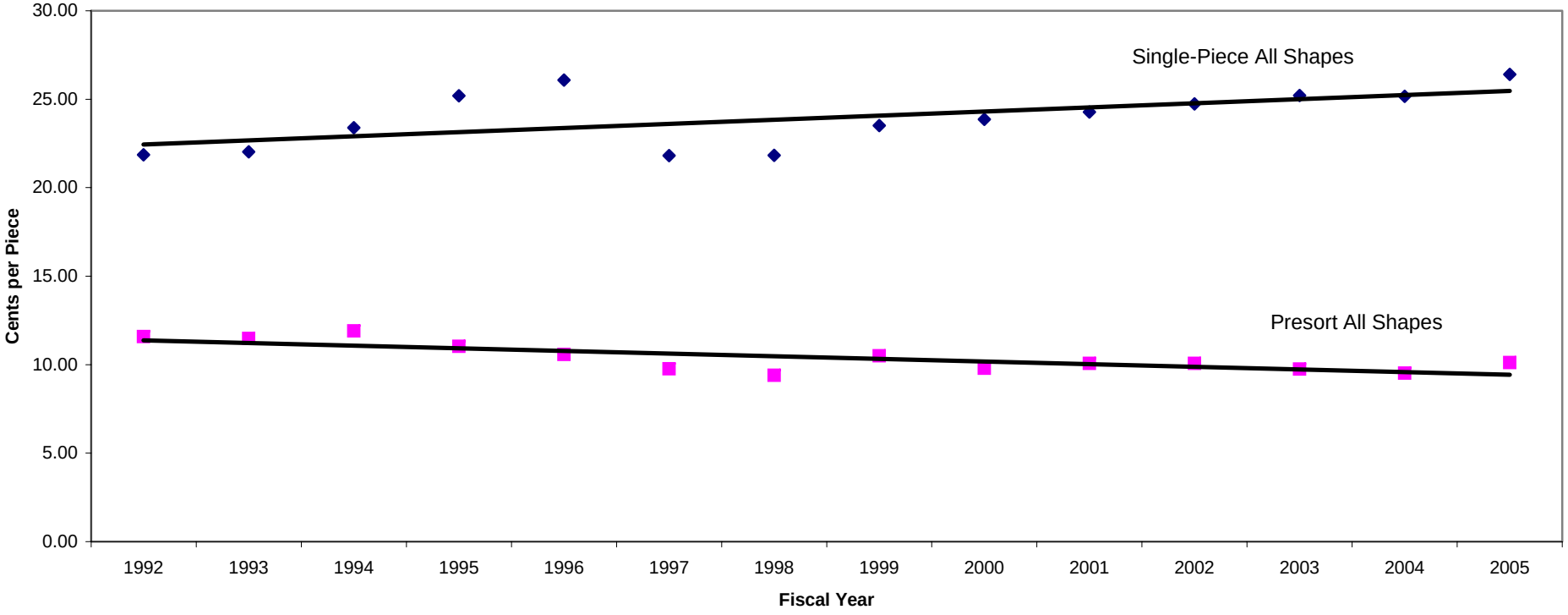
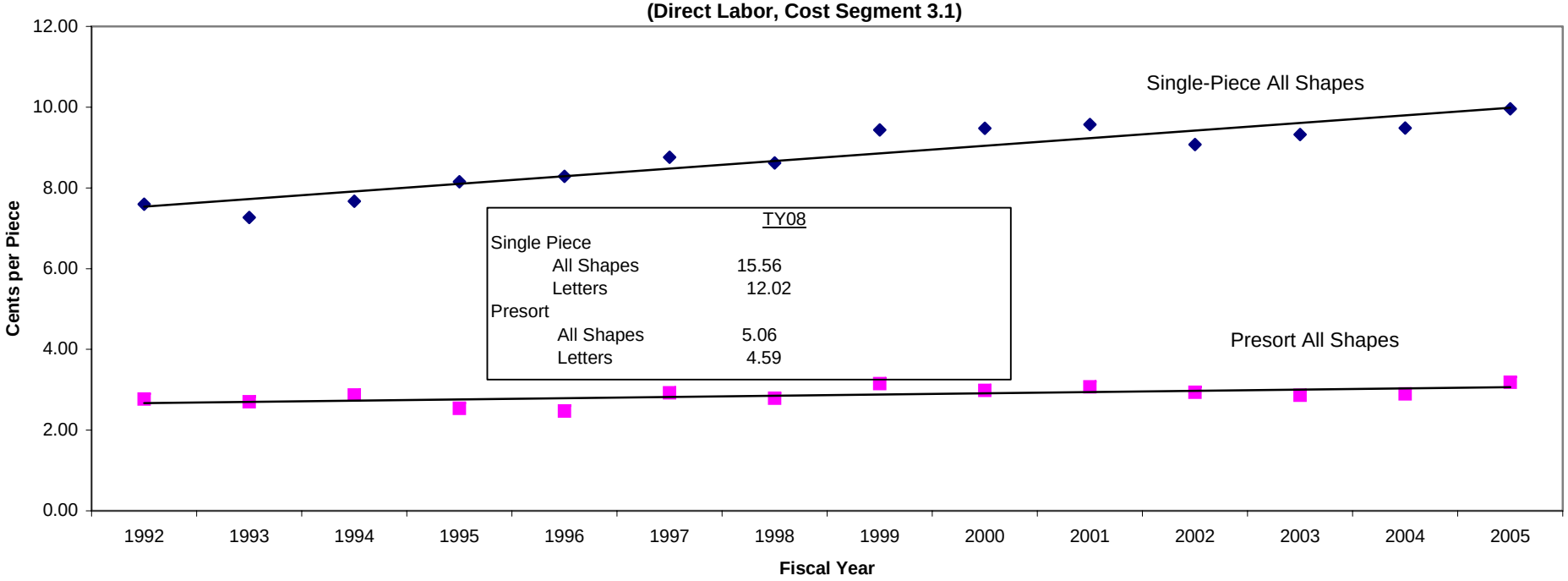
[10] That the CRA cost data are not disaggregated by shape does not undermine the analysis. Letter-shaped pieces account for the overwhelming preponderance of volume and costs in the CRA database, as the table in Workpaper 9 shows.

Figure 5
First-Class Total Unit Attributable Cost Differences



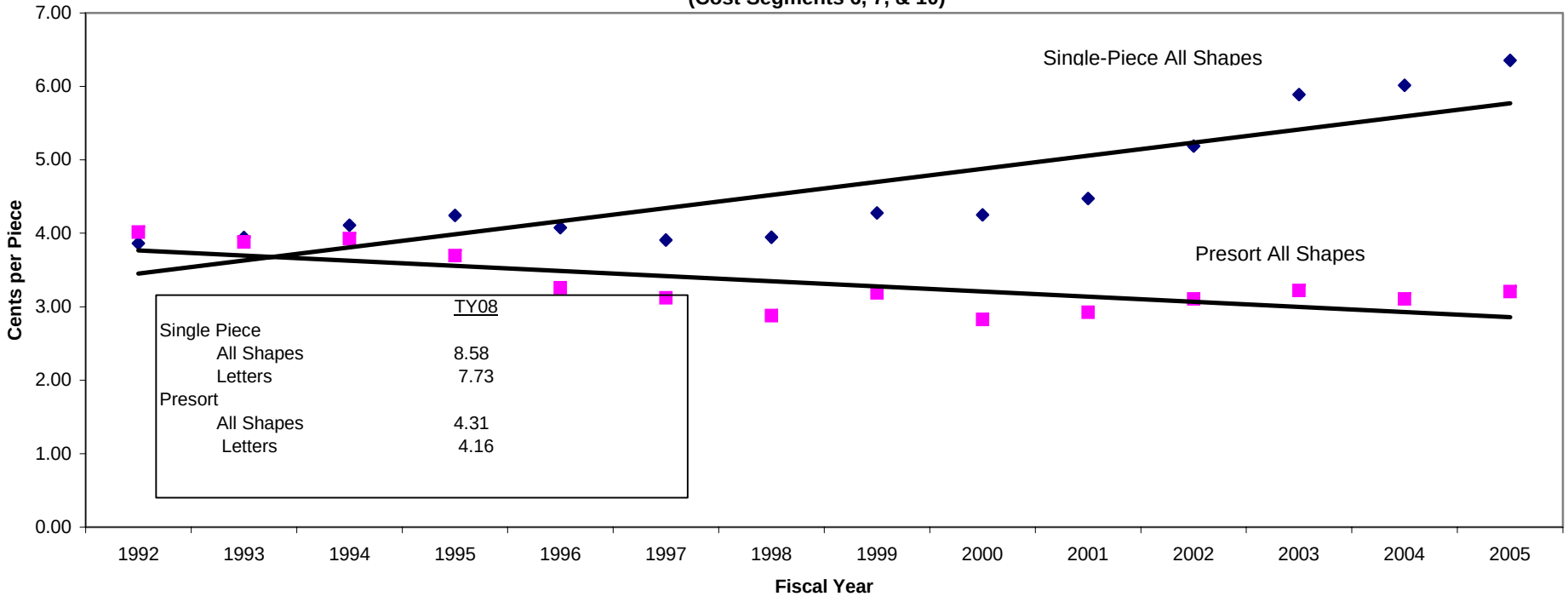
Source: ABA-NAPM-T-1, Workpaper 9.

Figure 6
First-Class Mail Processing Unit Attributable Cost Differences
All Shapes and Letters
(Direct Labor, Cost Segment 3.1)



Source: ABA-NAPM-T-1, Workpaper 9.

Figure 7
First-Class Delivery Unit Attributable Cost Differences
All Shapes and Letters
(Cost Segments 6, 7, & 10)



Source: ABA-NAPM-T-1, Workpaper 9.

Some of the attributes of First-Class Mail that are responsible for the cost disparity between Single-Piece and Presort First Class are now unrecognized in any element in the rate structure. These cost-affecting characteristics include weight, shape, other physical characteristics of the mailpiece, length of haul, accuracy and legibility of addresses, and retail sales channel and method of payment evidencing. Other important cost drivers (e.g., shape), while recognized through separate rate elements, are recognized only partially—i.e., the rate differentials pass through significantly less than 100 percent of the cost differentials. USPS witness Taufique expresses the long-held views of presort bureaus and major mailers such as banks very well on this issue:

> Intervenors who send presort letters have contended that using what they regard as a narrowly defined range of cost characteristics to establish rate differentials between Single-Piece Letters and Presort Letters may ignore cost-causing characteristics that, while not expressly associated with the worksharing activity for which the cost avoidance and discount are being measured and developed, nevertheless are associated with their mail.
>
> Taufique Direct (USPS-T32), page 13, lines 1-6.

Efficiency and fairness require that a larger share of the total unit attributable cost differences between Presort and Single-Piece First-Class Mail be recognized in the rate differential between the two categories.[11] The rates accompanying the Postal Service's de-linking proposal in this case are a reasonable first step, but a first step only, in that direction.

[11] Further discussions of these points appear in the Comments of Association for Mail Electronic Enhancement *et al.* in Response to Notice of Inquiry No. 3 (August, 18, 2006) at 5-20; Comments of the American Bankers Association in Response to Notice of Inquiry No. 3 (August 18, 2006) at 9-10.

VI. COST POOL CLASSIFICATION ISSUES IN MEASURING COSTS AVOIDED

A. Which Cost Pools Vary by the Level of Presort?

With de-linking, the focus on costs avoided and discounts becomes the level of presortation rather than the presence or absence of barcoding. Without de-linking, the level of the worksharing discount depends on both the presence or absence of prebarcoding and the level of sortation. In either case, one must examine the classification of mail processing cost pools to determine properly most of the costs avoided by worksharing.

Analysis of the Postal Service's methodology in this case demonstrates, however, that it significantly understates presort cost avoidance. Rather than perform a thorough and rigorous analysis of the effect of sorting on costs, the Postal Service has modeled only a limited number of cost pools. In fact, it has modeled only 19% of them—10 out of 53—and has simply *assumed* that the remaining 81% of the cost pools, the ones not modeled, are unaffected by the degree of worksharing. See 4 Tr. 519 (See R2006-1, Response of USPS witness Abdirahman to ABA-NAPM/USPS-T-22-4b); R2006-1, Abdirahman Direct (USPS-T-22), p. 7, lines 19-21 and p. 8, lines 1-2. The cost pools labeled as "proportional" were merely those containing costs for tasks that were actually modeled and the cost pools labeled as "fixed" were merely those containing costs that were not modeled. *See e.g.,* 4 Tr. 609 (response to PB/USPS-T22-4); *id*. at 528 (response to MMA/USPS-T22-1); *id*. at 618-20, 660 (Abdirahman).

Mr. Abdirahman also acknowledged that there were no econometric or operational studies to support the contention that the cost pools labeled "fixed"

(i.e, not modeled) actually are fixed with respect to presort level. He also conceded that many of the cost pools labeled as "fixed" may well contain costs that are in fact proportional with respect to presort level. *See id*. at 609 (response to PB/USPS-T22-4); *id*. at 661, 670, 675 (Abdirahman). Moreover, Mr. Abdirahman acknowledged that the classification of cost pools as either "proportional" or "fixed" is not trivial because only the costs in "proportional" cost pools that have been modeled can affect differences between rate categories. *Id*. at 670, 675-76 (Abdirahman).

A brief submitted by Pitney Bowes Inc. in support of settlement in R2005-1 demonstrated that many cost pools treated as non-worksharing related by the Postal Service in fact should have been treated as worksharing related proportional or worksharing related fixed.[12] The Postal Service's direct testimony in the present case does *not* attempt to rebut the arguments made in the Pitney Bowes brief.[13]

The arbitrariness of the Postal Service's decision to reduce proportional cost pools from 36 to 11 in Docket No. R2000-1, and to 10 in R2006-1, is

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[12] The Pitney Bowes brief provided useful groupings of cost pools and an analysis, based on the testimony of USPS witnesses Bozzo and Van-Ty-Smith, explaining how to evaluate the classification of cost pools that are, and that are not, direct operations letter sorting or bundle sorting costs. The Pitney Bowes brief also demonstrated that the Postal Service's conclusion that non-modeled cost pools are unrelated to the level of presorting is merely an arbitrary assumption, unsupported by any Postal Service study or analysis. *See* R2005-1, Brief of Pitney Bowes Inc. In Support of Settlement, September 26, 2005, pp. 14-28 and Appendix 4.

[13] There is one exception. In response to PB/USPS-T42-11, USPS witness McCrery states "Five Digit sorted trays are likely to have similar container, i.e. pallet or rolling stock, handlings when compared to 3-digit or multi-3-digit.

confirmed by the testimony of USPS witness Bozzo in the present case concerning cost pools and the level of presortation, and the testimony of witness Van-Ty-Smith concerning distribution keys for cost pools that are not direct operations.

Witness Bozzo makes three key points. First, he notes that increases in mailer worksharing activities will generally substitute for USPS total pieces fed (TPF) and total pieces handled (TPH) as measures of mail processing output in direct sorting operations, and that piece handlings in these operations do vary across presort levels. In general the Postal Service recognizes that direct piece handlings should be assigned to proportional cost pools. Witness Bozzo recognizes that direct piece handlings do vary with the level of presortation, and notes that those variations can be captured with either a "total pieces handled" (TPH) measure of direct sorting costs or a "total pieces fed" (TPF) measure, but cannot be captured by a "first handled pieces" (FHP) measure. While the context of Mr. Bozzo's statement below is a critique of Professor Mark Roberts' work for the Office of the Consumer Advocate at the Commission, the statement is *also* an acknowledgment that sorting costs avoided by worksharing do vary with the level of presortation:

> [T]he FHP measure would not recognize a difference in a destination plant's sorting of a 3-digit presort piece versus a 5-digit presort piece, as FHP does not capture the sort stage(s) avoided by the 5-digit piece; TPH reflects the difference. The shortcomings of FHP are particularly significant as the substitution of mailer or presort bureau work (or "output") for Postal Service work, via the avoidance of certain sort stages, is the basis for presort cost avoidances.

R2006-1, Bozzo Direct (USPS-T-12), page 25, lines 12-17. The Postal Service agrees that 10 cost pools do exhibit the type of cost behavior noted above by Mr. Bozzo, namely they vary directly by the level of presortation. We can refer to these as "Direct Handling Operations".

Second, Mr. Bozzo states that non-piece handling costs such as those for subsequent sorting passes or dispatches to other operations, along with non-handling time or overhead that is driven by handling work hours, will be proportional to TPF:

> Insofar as each piece fed must be brought to and dispatched from the operation, related container handlings (including handlings to send mail back through the operation for subsequent sorting passes) will also be proportional to TPF, as will "overhead" not-handling time that is driven by the handling of workhours. Handling-mail time and associated overheads account for the vast bulk of workhours in sorting operations, so there is little in the way of causal avenues for workload measures other than TPF to enter the relationship between hours and mail processing "outputs."

R2005-1, Bozzo Direct (USPS-T-12), page 14, lines 9-14. The necessary inference from this is that these cost pools vary with the level of presortation in the same manner as do direct handling operations cost pools. This second group of cost pools may be referred to as "Handling – Related Overhead".

Third, Mr. Bozzo states that allied labor and general support functions are driven by direct operations and can be thought of as being "piggybacked" in proportion to those operations. The necessary inference is that cost pools are also variable with respect to presort level just as the direct operations are variable:

> [F]or allied labor and general support operations, it is possible to view cost causation as following a "piggyback" model, in which the costs in support operations are viewed as driven by – and thus volume-variable to the same degree as – the "direct" operations.

R2006-1, Bozzo Direct (USPS-T-12), page 84, lines 5 - 9. This third group of cost pools may be referred to as "Allied and Other Overhead".

In sum, the Postal Service's failure in this case to model the effect of presorting on container handling, tray handling, allied labor, mail processing support and network related activities cannot be reconciled with the judgment of the USPS witness responsible for analyzing the volume variability of mail

processing costs that all these costs do vary with the level of worksharing. Just because they are not modeled in USPS witness Abdirahman's mail flow models does not mean these cost pools do not vary with the level of presortation. As Mr. Bozzo has made clear, all three groups of cost pools vary by the level of presort, not just the first.

B. ABA and NAPM Cost Pool Classifications

Table Two and Table Three below summarize my classification of cost pools as worksharing related proportional in the case of a de-linked benchmark, and worksharing related proportional or worksharing related fixed in the case of Single-Piece benchmarks.

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Table Two

ABA-NAPM Mail Processing Cost Pool Classifications

De-Linked Benchmark

	USPS Methodology	PRC Methodology
	Worksharing Proportional	Worksharing Proportional
Direct Handing Operations		
	BCS/	BCS/
	BCS/DBCS	BCS/DBCS
	OCR/	OCR/
	MANL	MANL
	LD15	LD15
	1OPBULK	1OPBULK
	1OPPREF	1OPPREF
	1POUCHNG	1POUCHNG
	AUTO/MEC	LD41
	MANL	LD42
		LD43
		LD44
		AUTO/MEC
		MANL
Handling - Associated Overhead and Allied and General Overhead Piggybacked to Direct Handling Operations		
	1SACKS_M	1SACKS_M
	1TRAYSRT	1TRAYSRT
	1DISPATCH	1DISPATCH
	1OPTRANS	1OPTRANS
	1PLATFRM	1PLATFRM
	1PRESORT	1PRESORT
	1SACKS_H	1SACKS_H
	1SCAN	1SCAN
	1EEQMT	1EEQMT
	LD49	1MISC
	LD79	1SUPPORT
	1SUPP_F1	LD48 OTH
	ALLIED	LD48_ADM
	MISC	LD49
		LD79
		1SUPP_F1
		ALLIED
		MISC

Table Three
ABA-NAPM Mail Processing Cost Pool Classifications
Single-Piece Benchmark

	USPS Methodology		PRC Methodology	
	Worksharing Proportional	g Related	Worksharing Proportional	Worksharing Related Fixed
Direct Handing Operations				
	BCS/ BCS/DBCS OCR/ MANL LD15 1OPBULK 1OPPREF 1POUCHNG AUTO/MEC MANL		BCS/ BCS/DBCS OCR/ MANL LD15 1OPBULK 1OPPREF 1POUCHNG LD41 LD42 LD43 LD44 AUTO/MEC MANL	
Handling - Associated Overhead and Allied and General Overhead Piggybacked to Direct Handling Operations				
	1SACKS_M 1TRAYSRT 1DISPATCH 1OPTRANS 1PLATFRM 1PRESORT 1SACKS_H 1SCAN 1EEQMT LD79 1SUPP_F1 ALLIED MISC	1CANCEL 1MTRPRP LD49	1SACKS_M 1TRAYSRT 1DISPATCH 1OPTRANS 1PLATFRM 1PRESORT 1SACKS_H 1SCAN 1EEQMT 1MISC 1SUPPORT LD48_ADM LD79 1SUPP_F1 ALLIED MISC	1CANCEL 1MTRPRP LD48 OTH LD49 LD48_SSV

I accepted the Postal Service's 10 (non-zero) direct operations proportional cost pools as in fact being proportional. I also classified the following cost pools as worksharing related proportional:

MODS	NON-MODS
1Sacks_M	Allied
1Platfrm	Misc
1Sacks_H	
1EEQMT	
LD49	
LD79	
1Supp_F1	

There are cost pools that I classified as worksharing related in R2000-1. The observations of USPS witness Bozzo cited above, and the definitions of these cost pools provide by the Postal Service to ABA&NAPM in R2001-1, have confirmed the reasonableness of these classifications.

I have also classified the following four cost pools as proportional for the USPS benchmark methodology in this case: MODS 13 1TRAYSRT, MODS 17 1OPTRANS, 1PRESORT, and 1Scan. I do so because these cost pools fall into either non-handling costs that should vary directly with piece and bundle direct sorting operations or general support activities that witness Bozzo maintains should be piggybacked onto direct piece or bundle sorting operations and that vary by presort level.

The MODS 49 LD 49 relates to the computerized forwarding system at MODS facilities. In his answer to ABA-NAPM/USPS-T24-12 in R2000-1, witness Miller stated, with respect to this cost pool:

> These costs are worksharing related in the sense that First-Class presort mailers are required to meet strict addressing standards. However, these costs are not included in the cost models. As a result, this cost pool is classified as "worksharing related fixed."

I classify MODS 49 LD 49 as worksharing-related fixed under a metered mail or Single-Piece benchmark. However, the USPS de-linked methodology in this case lacks a "worksharing related fixed" classification. If one believes, as I do, that address hygiene efforts by worksharing mailers have been considerable, are expensive, and do avoid costs for the Postal Service, then it is preferable in my judgment to classify this cost pool as proportional rather than fixed under the de-linked methodology.

MODS 79 LD 79 mainly relates to presort verification procedures and platform accept activities. I believe these can vary, for example, between 3-digit and 5-digit letters, since the former may enter a plant at a certain stage of processing while the later is just moved to another truck on the same platform for transportation downstream. For this reason, I classify this cost pool as proportional.

In addition to the above, when using the Commission's methodology, ten additional cost pools require separate classification. Four of these were properly classified by the PRC in R2005-1 as proportional: MODS 41 LD41; MODS 42 LD42; MODS 43 LD43; and MODS 44 LD44. Another pool, MODS 48 LD48

EXP, was properly classified by the Commission as a non-proportional letters cost pool; these costs are related to Express Mail, not First-Class letters.[14]

I disagree with the Commission's classification of four MODS 48 cost pools, two of which did not exist in R2000-1 (MODS 48 LD48 OTH and MODS 48 LD48 ADM). The two MODS 48 cost pools should be treated as proportional with a de-linked benchmark, and worksharing rated fixed with a metered mail or Single-Piece benchmark, for reasons similar to those that justify treating mailer address hygiene efforts as measured avoided costs.

The Postal Service's cost analysis fails to recognize the *customer service* costs avoided by presort bureaus and other bulk mailers of First-Class letter mail. These firms engage in substantial and costly customer service efforts for new and existing clients that avoid costs for the Postal Service. These may not be direct operations costs but they directly affect operations costs and they avoid costs for the Postal Service. For a new client these costs involve, typically, multiple meetings and discussions during which the client is educated concerning how to prepare his/her mail for submission to the presort bureau. For existing clients, these customer service activities entail regular contact with customers on a variety of issues. For example, a presort bureau will update its customers on rules changes or make them aware of systemic problems with any trays of mail that need to be corrected.

In my visits to presort bureaus, I am consistently told that if they did not engage in these customer education efforts, Postal Service customer relations

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[14] Arguably, for the same reasons, I could have also included as worksharing – related MODS 48 LD 48SSV, which relates to special service operations at Customer Service MODS facilities. This is a "gray" area that seemed less clear based on R2000-1 definitions than the other two MODS 48 cost pools. Under the PRC methodology, I treat it as fixed under a de-linked benchmark and worksharing related under single piece benchmarks.

would have to do so. Furthermore, a number of presort bureau employees have told me that they field calls from non-clients because Postal Service personnel, rather than taking the time to answer those mailers' questions about mail preparation requirements, have advised the mailers to get the necessary information from a presort bureau. The time that the Postal Service avoided spending answering these questions is an avoided cost for the USPS.

In R2000-1 we could not incorporate these avoided costs from customer service and education because no cost pools existed that were a "family match" for the operation.[15] In R2006-1, however, we have the two new customer education cost pools in the MODS 48 family. It therefore seems appropriate to recognize mailer efforts at avoiding costs for the Postal Service in this area. As with address hygiene, the issue here is not whether or not the activities vary with presortation level per se, but whether they should be recognized or totally ignored, as in the past by being assigned as "Fixed costs."

I also disagree with the Commission's assignment of two MODS 18 cost pools (1MISC and 1SUPPORT). The two MODS 18 cost pools seem clearly to fall within the scope of those costs which USPS witness Bozzo explains should be piggybacked onto direct piece and bundle sorting cost pools. These are cost pools that are proportional and do vary with the level of presort.

Finally, I have classified two cost pools—MODS 17, 1CANCEL and 1MTRPREP—as worksharing-related fixed when using a metered mail or Single-Piece benchmark, and fixed when using the USPS de-linked benchmark.

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[15] Major mailers and presort bureaus avoid many other costs for the Postal Service that cannot be scored because there is no cost pool from which one can define the costs, and therefore measure the costs avoided.

There are several cost pools that I excluded from my analysis for the following reasons. I treated as fixed (and, in tripartite classifications, non-worksharing related fixed) those cost pools for facilities or operations that do not handle, or are not designed for, First-Class Mail. Examples are BMCs and Express and Priority mail operations. USPS witness Smith's TY2008 unit costs by cost pool will sometimes show costs for Presort First-Class letter mail in such pools, but they are almost always negligible. They may reflect that operations are not always as neat as rate case models and/or they may be statistical aberrations or imperfect measurement.

I also treated as fixed (and, in tripartite classifications, non-worksharing related fixed) those cost pools that do reflect First-Class operations, but not letter operations. The Postal Service's focus on shape based rates in this case is an especially pertinent reason to rule out such non-letter based cost pools from our cost avoidance calculations where we can identify them as such. There are twelve cost pools that focus on flats or parcels. While some letter costs may show up in witness Smith's calculations for these cost pools, the same points made above apply—they are negligible, reflect the deviation of operations from idealized rate case assumptions and/or may be statistical aberrations.

VII. INCREMENTAL PASSTHROUGHS OF COSTS AVOIDED FOR SIX BENCHMARKS SUPPORT THE USPS–PROPOSED RATES FOR WORKSHARING LETTERS

A. Why the Proposed Rates Should be Evaluated in This Case Using a Multiplicity of Benchmarks if the Commission Chooses Not to Accept De-linking

Because of the complexities presented by this case, I have examined a multiplicity of methods to determine whether a range of incremental passthroughs of avoided costs consistently supports the proposed rates regardless of the cost avoidance method used. As I show below, they do. The

sections below present six models of the costs avoided by worksharing, based on various assumptions about the benchmark for measuring costs avoided, the volume variability of mail processing costs, and the delivery costs avoided.

The Commission stated in R2005-1 that it does not accept the Postal Service's use of the "total passthrough method" for evaluating the efficiency and fairness of proposed presort discounts. Consistent with this ruling, the Postal Services' case-in-chief in R2006-1, unlike R2005-1, does not make use of any total passthrough percentage method. USPS witness Taufique uses only the Commission's incremental passthrough method in his testimony. For this reason, the six methods of estimating avoided costs that I have examined are evaluated using only the Commission's incremental passthrough approach. USPS witness Taufique finds the following incremental passthrough percentages associated with his proposed rates and costs avoided using his de-linked automation letters benchmark:

Mixed AADC	NA
AADC	100%
3 –Digit	100%
5 – Digit	146%

More realistic cost pool classifications, applied to the six modeling scenarios discussed below produce lower passthroughs for a variety of linked and de-linked benchmarks, utilizing both the Commission's as well as the Postal Service's mail processing volume variability assumptions.

B. Model One

Model One (detailed in Workpaper 3) keeps all aspects of the Postal Service's de-linked cost avoidance methodology intact and re-calculates incremental passthrough percentages based on the ABA and NAPM cost pool reclassifications. Specifically, the underlying assumptions of Model One are: (1) delivery costs avoided are assumed to be implicit in the costs avoided; (2) a Mixed AADC "de-linked" benchmark is used for calculating incremental costs avoided[16]; (3) the Commission's volume variability methodology is tested; (4) the USPS volume variability methodology is also tested; (5) cost pools are classified as either proportional or fixed.

Assumption (1) above requires some explanation. The Postal Service defends this omission on the grounds that (1) the Service no longer has confidence in modeled DPS percentage differences as the basis for performing the cost avoided calculation; and (2) operationally, it has no way of measuring different DPS percentages by rate category See 12 Tr. 3335-36 (response of USPS witness Kelley to ABA-NAPM/USPS-T22-2(b)).

The failure of the Postal Service to have (or develop) a reliable measure of delivery cost avoidances, however, is no basis for simply assuming away the

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[16] For the reasons noted above, rejecting de-linking and continuing to set rates for Presort First-Class mail by deducting "cost avoidances" from rates for a "benchmark" mail category would be a mistake. If the Commission chooses this course, however, the best rate benchmark in light of the discussion on pages 11-16 of Section V.A., is the 3-Digit automation rate, not a rate category of Single-Piece mail, or either of the two low-volume residual automation rate categories, Mixed AADC or AADC. The AADC rate may be used only for those pre-barcoded mail pieces in a mailing that could not qualify for the 3-Digit rate, and the Mixed AADC rate may be used only for pre-barcoded mail pieces in a mailing that did not qualify for the 3-Digit rate or the AADC rate. Mailers are required to presort Presort Mail to the 3 Digit level before they can use the two residual rates.

existence of such cost savings. Both operational logic and Commission precedent provide strong reason to believe that mailer presorting enables the Postal Service to avoid costs otherwise incurred by delivery unit employees. If the available methods for estimating these savings are imperfect, the Postal Service and the Commission should use the best available data of record, rather than throw up their hands and abandon any effort to estimate cost savings that are economically relevant in setting rates.

Despite the absence of explicit delivery costs avoided that vary with the level of presortation in Model One, all of the proposed Presort rates for First-Class letter mail have passthrough percentages well under 100% utilizing the volume variability assumption used by the Postal Service.

Table Four
Model One
Passthroughs of Proposed Rates Using USPS Assumptions

	USPS Method	PRC Method
Mail Category	**De-Linking Benchmark**	**De-Linking Benchmark**
MAADC	N/A	N/A
AADC	59.8%	56.0%
3-Digit	62.5%	58.4%
5-Digit	91.0%	85.0%

Source: ABA-NAPM-T-1, Workpaper 3.

When I altered one of the four assumptions above and utilize the Commission's 100% volume variability assumption, I also had to classify ten extra cost pools beyond what is done for the USPS volume variability method. I then arrive at the

passthrough percentages shown under the column "PRC Method". The incremental passthroughs are all well under 100%, and actually lower than those utilizing the USPS volume variability methodology.

C. Model Two

Below in Table Four are side to side comparisons of Model Two using the Commission's method on the right and the Postal Service's on the left. I assume: (1) a Mixed AADC "de-linked" benchmark; (2) cost pools classified as proportional or fixed; and (3) explicit delivery costs, namely the originating PRC costs found in Table One of USPS-LR-L-147. As with the incremental passthroughs of Model One, the incremental passthroughs in Model Two are all well under 100%, and therefore fully support the presort rates proposed by the Postal Service in this case.

Table Five
Model Two
Passthroughs Using Originating PRC Delivery Costs Avoided

	USPS Method	PRC Method
Mail Category	**De-Linking Benchmark**	**De-Linking Benchmark**
MAADC	N/A	N/A
AADC	55.7%	52.3%
3-Digit	57.0%	53.6%
5-Digit	81.1%	76.4%

Source: ABA-NAPM-T-1, Workpaper.

D. Model Three

A serious conceptual critique of the bulk metered mail ("BMM") benchmark appears in a paper presented by Professor John Panzar at the annual CRRI Conference on Postal and Delivery Economics in Bern, Switzerland, in June 2006.[17] Professor Panzar suggests that, because First-Class Single-Piece letter mail as a whole is heterogeneous in its characteristics and costs, the measure of cost avoidance that produces the most efficient pricing signals under the Efficient Component Pricing Rule (ECPR) is the average USPS cost of processing the *marginal* mail type, not the avoided cost of the mail "most likely" to be workshared. The marginal mail type is that for which, at the margin of choice, the costs of USPS processing equal the cost of presorting. The Panzar critique and alternative benchmark is a further, independent reason not to use the BMM benchmark, even if (contrary to fact) BMM existed and were the category of Single-Piece Mail still most likely to convert to Presort Mail.

Developing a precise empirical measure of the heterogeneous marginal mailpiece defined in Professor Panzar's study is a complex matter beyond the scope of my testimony. A reasonable first approximation, however, is the unit costs of mail processing and delivery for Single-Piece mail generally.[18]

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[17] J. Panzar, "Clean Mail and Dirty Mail: Efficient Work-sharing Discounts in the Presence of Mail Heterogeneity" (2006), presented at the 14th CRRI Conference on Postal and Delivery Economics, Bern, Switzerland (June 1, 2006).

[18] DIOSS technology better integrates the mail processing of heterogeneous collection mail on a single machine, thus establishing greater continuity in the measured cost functions of collection mail. Older MLOCR technologies now being phased out and replaced with DIOSS often employed separate machines and operations for RCR and RBCS operations, separate machines for ISS operations and separate machines for OSS operations, with notable cost discontinuities across the various operations. Were it not for regulatory restrictions and the absence of rate classification incentives that would lead to further conversion possibilities, DIOSS on technological grounds makes any

The incremental passthroughs produced by Model Three, which uses the unit costs of mail processing and delivery for Single-Piece mail generally, are also well below 100 percent for each of the First-Class Presort rates proposed by the Postal Service, under either Commission or USPS volume variability assumptions. My underlying calculations and assumptions appear in Workpaper 5.

Table Six
Model Three
Passthroughs with Heterogeneous AVC Benchmark

	USPS Method	PRC Method
Mail Category	**Heterogeneous AVC Benchmark**	**Heterogeneous AVC Benchmark**
MAADC	95.4%	80.5%
AADC	55.7%	52.3%
3-Digit	57.0%	53.6%
5-Digit	81.1%	76.4%

Source: ABA-NAPM-T-1, Workpaper 5.

E. Model Four

Model Four (detailed in Workpaper 6) uses a metered mail benchmark. It is widely recognized that a significant problem exists in determining how to measure delivery costs avoided when one uses a metered mail benchmark. At one extreme, the Postal Service has estimated in this case that "delivered"

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piece of collection mail as likely to convert as any other. Panzar's benchmark then explains on cost grounds what the last marginal piece to convert would be.

delivery costs for metered letters are 13.008 cents. At the other extreme, the Postal Service has estimated that non-automation presort machinable delivery costs are 4.04 cents per piece for Mixed AADC and AADC. Neither of these extremes is justifiable for use in measuring delivery costs avoided for Presort rate categories.[19]

The problems associated with non-automation presort data are well known. During the R2000-1 rate case, the Postal Service has calculated anomalous negative cost avoidance for non-automation presort letters (USPS-T-21, Tables 1 and 2, USPS-LR-K-48 and LR-K-110). USPS witness Abdirahman indicated in R2005-1 in response to POIR #1, question 1 (a) that the source of the anomaly may be that certain automation mail is mixed in with the tallies for Non-automation Presort Mail. He expanded on that explanation in his direct testimony in R2006-1. See USPS-T22, p. 5 line 11 through p. 6 line 2.

Witness Abdirahman's proposed solution to data anomalies with Non-automation Presort is to abandon direct CRA measurement from IOCS tallies in favor of a modeled cost approach. See R2006-1, USPS-T22, p. 6 lines 3-9. What the CRA now measures for workshared First-Class letter mail is just a single aggregate, Presort Letters, whereas in the past the CRA measured,

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[19] On the one hand, the 13 cent figure is not an in-office delivery cost figure, but a total "delivered" delivery cost figure. It is generally accepted that the measurement of delivery costs avoided from worksharing includes only in-office delivery costs avoided. On the other hand, it is absurd to use a non-auto machinable letters proxy for in-office delivery costs for metered mail that is only 52% of the corresponding value for delivery costs for Single-Piece mail generally, and that, moreover, relies on data with notorious problems. By the time barcoded and sorted metered mail and single-piece mail reach a carrier in the office, the in-office delivery costs cannot possibly exhibit a variance as wide as the difference between 7.778 cents for Single-Piece and 4.044 cent non-auto machinable proxy for a metered piece. The former number is derived from much larger sample sizes in the IOCS than is the machinable non auto presort delivery cost proxy for metered delivery costs.

separately, Non-automation Presort, Automation Presort, and Carrier Route Presort.

In response to MMA/USPS-T22-44, which asked whether the new modeled cost approach to non-automation presort costs overstates such costs, witness Abdirahman replied: "The cost models are used because actual costs are not available. I cannot confirm that the models overstate or understate actual costs." 4 Tr. 590.

However, witness Abdirahman's new modeled cost approach to Non-automation Presort Mail processing costs introduces a new set of anomalies. Automation Mixed AADC unit mail processing costs are actually higher than those for non-auto presort letters, 6.470 cents versus 6.302 cents. See R2006-1, USPS-LR-48, page 1. When queried about this anomaly in MMA/USPS-T22-6.d., USPS witness Abdirahman states that cost savings from the finer presort level in the non-auto volumes may have outweighed the presence of a barcode on the Mixed AADC pieces.[20] Yet, the BY2005 volume mix for Non-auto Presort does not support witness Abdirahman's explanation. On page 40 of USPS-LR-L-48, the germane volumes are reported as follows for Non-auto Presort letters:

Non-auto machinable Mixed AADC	716,554,000
Non-auto machinable AADC	238,936,000
Non-auto machinable 3 digit	625,850,000
Non-auto machinable 5 digit	135,548,000

The non-auto presort volumes reflected in the data above are not mainly letters at the finer presort level, as hypothesized by witness Abdirahman. In fact, 56 percent of the non-auto presort volumes were either Mixed AADC or AADC

[20] 4 Tr. 546-47 (Abdirahman).

and 42 percent were Mixed AADC. For this reason alone, USPS witness Abdirahman's modeled mail processing costs for Non-automation Presort almost certainly are too low.

The anomalies in the non-automation presort data are not limited to mail processing costs. Unit delivery costs for Non-auto Presort mail are projected to decline by 32.3% in TY2008, largely from an unexplained drop in "direct casing" costs of 21.9%. See 12 Tr. 3368 (response of USPS witness Kelley to MMA/USPS-T30-17. D). Why cost segment 6.1 direct casing costs should fall dramatically for one rate category and rise for all others is not explained. Clearly, however, these unexplained cost dynamics have led to another new major data anomaly: Non-automation presort unit delivery costs for machinable Mixed AADC and AADC letters are actually *below* their automation counterparts. The PRC version of TY2008 originating unit delivery costs is 4.040 cents for non-auto presort machinable Mixed AADC and AADC, whereas it is 4.182 cents for automation Mixed AADC and 4.046 cents for automation AADC letters.

Were one to use non-automation machinable presort letter unit delivery costs as a benchmark proxy for metered letters delivery costs in the calculation of costs avoided for workshared First-Class letter mail, pre-barcoded Mixed AADC letters would exhibit negative delivery costs avoided. The above data anomalies, which in part may be due to an insufficient IOCS sampling rate for this low volume mailstream, obviously preclude reliance in this case on de-averaged cost avoidance data such as non-auto presort machinable Mixed AADC and AADC. The new non-automation presort cost data have as many, if not more, anomalies as the previous data in dockets R2000-1 and R2005-1.

Because of the numerous problems associated with non-auto presort cost data, I believe that the originating PRC delivery costs for Single-Piece mail are a fair middle ground proxy for metered mail delivery costs, given the longstanding

problems with non-auto presort cost data, and the strong likelihood that several automation pieces in the non-auto presort sample are heavily biasing those delivery costs downward. This is the first assumption underlying Model Four. The second assumption is that cost pools are classified as proportional or worksharing related fixed.

Model Four summarized in Table Seven below, shows incremental passthroughs using a metered mail benchmark for both the Commission's and USPS mail processing volume variability methods. The incremental passthroughs at the Postal Service's proposed rates are well under 100% for all the workshared rate categories using the Commission's methodology. Using the USPS methodology, the incremental passthroughs are under 100% for three of the four worksharing rates, and barely above 100% for the Mixed AADC rate.

Table Seven
Model Four
Passthroughs Using Full Metered Benchmark

	USPS Method	PRC Method
Mail Category	**Metered Mail Benchmark**	**Metered Mail Benchmark**
MAADC	106.7%	89.4%
AADC	55.7%	52.3%
3-Digit	57.0%	53.6%
5-Digit	81.1%	76.4%

Source: ABA-NAPM-T-1, Workpaper 6.

F. Models Five and Six

Despite my criticisms above concerning the accuracy of using any non-auto presort delivery cost proxy for metered mail delivery costs, the final two models use such proxies. As can be seen in Table Eight and Table Nine below, the incremental passthroughs are well under 100% for AADC, 3-digit and 5-digit worksharing rates.

For Mixed AADC, the incremental passthroughs are all well above 100%, varying from 142% to 231%. These high incremental passthroughs do not reflect a proposed rate for Mixed AADC letters that is too low, and a discount that is too high. Rather, the high passthroughs are symptoms of problems with the non-automation presort data, and the presumption that one can use such data as a proxy for metered mail delivery costs when a metered mail benchmark is used. My underlying calculations and assumptions appear in Workpapers 7 and 8.

Table Eight
Model Five
Passthroughs Using Metered Benchmark with Non-Auto Delivery

	USPS Method	PRC Method
Mail Category	**Metered Mail Benchmark**	**Metered Mail Benchmark**
MAADC	190.7%	141.7%
AADC	55.7%	52.3%
3-Digit	57.0%	53.6%
5-Digit	81.1%	76.4%

Source: ABA-NAPM-T-1, Workpaper 7.

Table Nine
Model Six
Passthroughs Using Metered Benchmark with Machinable Non-Auto

	USPS Method	PRC Method
Mail Category	**Metered Mail Benchmark**	**Metered Mail Benchmark**
MAADC	231.2%	162.9%
AADC	55.7%	52.3%
3-Digit	57.0%	53.6%
5-Digit	81.1%	76.4%

Source: ABA-NAPM-T-1, Workpaper 8.

Appendix A

The Postal Service has systematically reclassified cost pools to limit its estimate of the costs avoided by workshared mail

Table A1 summarizes all the cost pool definition changes for letters and non-letters since R97-1. Table A2 summarizes changes to the classification of cost pools made by USPS rate case witnesses responsible for measuring costs avoided since R97-1. These tables illustrate some of the many ways in which the Postal Service has increasingly understated the costs actually avoided by presorting:

- Of the 36 cost pools classified as worksharing related proportional in R97-1, only 11 were still classified this way in R2000-1.
- As is evident from Table A2, very few of the cost pools classified as worksharing related proportional in R97-1 remain so classified, 36 in 1997 versus only 10 in R2006-1.
- Because the Postal Service witnesses in R2001-1 offered no studies or other substantive support for these classification changes, ABA-NAPM requested detailed definitions of each cost pool so that it could make an independent determination, in light of members' knowledge about the mail processing business, as to which cost pools were truly worksharing related proportional. See Docket No. R2000-1, USPS response to ABA-NAPM/USPS-T24-12.
- The USPS responded by providing thumbnail sketches of what 52 of the cost pools measured. However, 13 of these sketches were insufficient to enable anyone to make an independent determination that differed from USPS witness.

- The Postal Service's responses made clear, however, that six additional cost pools not classified as proportional by USPS witness Miller should have been classified as proportional: MODS13 SPBS OTH; MODS13 1SACKS M; MODS17 1CANCMMP; MODS18 REWRAP; MODS99 1SUPP F1; and NONMODS MISC.[21]

- The USPS response also demonstrated that six cost pools not classified by USPS witness Miller as worksharing related fixed should have been classified in this way: MODS17 1PLATFRM; MODS17 1SACKS H; MODS18 1EEQMT; MODS19 INTL; MODS99 1SUPP F1; MODS99 1SUPPF4.22.

- The following new cost pools were added in R2005-1: MODS 13 1TRAYSRT; MODS 17 DSPATCH; MODS 17 1OPTRANS.

- MODS 17 1CANCEL and MODS 171MTRPREP are new cost pool classifications as of R2005-1 that replace two older classifications, MODS 17 1CANCMPP and MODS 17 1BULKPR.

- Between R2005-1 and R2006-1, the Postal Service neither added nor deleted any cost pools.

- Between R2000-1 and R2006-1, the Postal Service made the following changes that are relevant to letters. MODS 11 BCS/DBCS was first added in the R2001-1 rate case to account for the emergence and deployment of the new DBCS technology. The letter sorting machine cost pool MODS 12 LSM has been dropped as this older technology has effectively been fully phased out.

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[21] Based upon further information than the definitions I received from USPS in R2000-1, I have removed two of these from my R2006-1 proportional classifications: MODS13 SPBS OTH and MODS18 REWRAP.

[22] Since R2000-1 the cost pool MODS 99 1SUPP F$ has been discontinued. Based upon further information than the definitions I received from USPS in R2000-1, I have removed from my R2006-1 worksharing related cost pools MODS 19 INTL.

- Six cost pools that were in the R2000-1 USPS methodology were dropped by the Postal Service utilizing its USPS methodology in R2005-1, though these were retained in the Commission's methodology: MODS 41 LD41; MODS 42 LD42; MODS 43 LD43; MODS 44 LD44; MODS 48 LD48 EXP; MODS 48 LD48 SSV.

- The Commission's methodology also includes four other cost pools not included in the USPS methodology: MODS 18 1MISC; MODS 18 1SUPPORT; MODS 48 LD 48 OTH; and MODS 48 LD 48_ADM.

Table A1
USPS Mail Processing Cost Pool Comparison
R2006-1 vs R2005-1, R2001-1, R2000-1 & R97-1

LIST OF ALL MODS		R2006-1			R2005-1			R2001-1			R2000-1			R97-1		
Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation
BMCS	NMO	1	BMCS	NMO	1	BMCS	NMO	1	BMCS	NMO	1	BMCS	NMO	1	BMCs	nmo
BMCS	OTHR	2	BMCS	OTHR	2	BMCS	OTHR	2	BMCS	OTHR	2	BMCS	OTHR	2	BMCs	Othr
BMCS	PLA	3	BMCS	PLA	3	BMCS	PLA	3	BMCS	PLA	3	BMCS	PLA	3	BMCs	Pla
BMCS	PSM	4	BMCS	PSM	4	BMCS	PSM	4	BMCS	PSM	4	BMCS	PSM	4	BMCs	psm
BMCS	SPB	5	BMCS	SPB	5	BMCS	SPB	5	BMCS	SPB	5	BMCS	SPB	5	BMCs	spb
BMCS	SSM	6	BMCS	SSM	6	BMCS	SSM	6	BMCS	SSM	6	BMCS	SSM	6	BMCs	ssm
MODS 11	BCS/	7	MODS 11	BCS/	7	MODS 11	BCS/	7	MODS 11	BCS/	7	MODS	BCS/	7	mods	bcs/
MODS 11	BCS/DBCS	8	MODS 11	BCS/DBCS	8	MODS 11	BCS/DBCS	8	MODS 11	BCS/DBCS						
MODS 11	OCR/	9	MODS 11	OCR/	9	MODS 11	OCR/	9	MODS 11	OCR/	8	MODS	OCR/	8	mods	ocr/
MODS 12	AFSM100	10	MODS 12	FSM100	10	MODS 12	AFSM100									
MODS 12	FSM/	11	MODS 12	FSM/	11	MODS 12	FSM/	10	MODS 12	FSM/	9	MODS	FSM/	9	mods	fsm/
MODS 12	FSM/1000	12	MODS 12	FSM/1000	12	MODS 12	FSM/1000	11	MODS 12	FSM/1000						
MODS 12	LSM/							12	MODS 12	LSM/	10	MODS	LSM/	10	mods	lsm/
MODS 13	MECPARC	13	MODS 13	MECPARC	13	MODS 13	MECPARC	13	MODS 13	MECPARC	11	MODS	MECPARC	11	mods	mecparc
MODS 13	SPBS OTH	14	MODS 13	SPBS OTH	14	MODS 13	SPBS OTH	14	MODS 13	SPBS OTH	12	MODS	SPBS OTH	12	mods	spbs Oth
MODS 13	SPBSPRIO	15	MODS 13	SPBSPRIO	15	MODS 13	SPBSPRIO	15	MODS 13	SPBSPRIO	13	MODS	SPBSPRIO	13	mods	spbsPrio
MODS 13	1SACKS_M	16	MODS 13	1SACKS_M	16	MODS 13	1SACKS_M	16	MODS 13	1SACKS_M	14	MODS	1SACKS M	14	mods	1SackS_m
MODS 13	1TRAYSRT	17	MODS 13	1TRAYSRT	17	MODS 13	1TRAYSRT									
MODS 14	MANF	18	MODS 14	MANF	18	MODS 14	MANF	17	MODS 14	MANF	15	MODS	MANF	15	mods	manf
MODS 14	MANL	19	MODS 14	MANL	19	MODS 14	MANL	18	MODS 14	MANL	16	MODS	MANL	16	mods	manl
MODS 14	MANP	20	MODS 14	MANP	20	MODS 14	MANP	19	MODS 14	MANP	17	MODS	MANP	17	mods	manp
MODS 14	PRIORITY	21	MODS 14	PRIORITY	21	MODS 14	PRIORITY	20	MODS 14	PRIORITY	18	MODS	PRIORITY	18	mods	priority
MODS 15	LD15	22	MODS 15	LD15	22	MODS 15	LD15	21	MODS 15	LD15	19	MODS	LD15	19	mods	LD15
MODS 17	1DSPATCH	23	MODS 17	1DSPATCH	23	MODS 17	1DSPATCH									
MODS 17	1FLATPRP	24	MODS 17	1FLATPRP	24	MODS 17	1FLATPRP									
MODS 17	1BULK PR							22	MODS 17	1BULK PR	20	MODS	1BULKPR	20	mods	1Bulk pr
MODS 17	1CANCMPP							23	MODS 17	1CANCMPP	21	MODS	1CANCMMP	21	mods	1CancMPP
MODS 17	1CANCEL	25	MODS 17	1CANCEL	25	MODS 17	1CANCEL									
MODS 17	1MTRPREP	26	MODS 17	1MTRPREP	26	MODS 17	1MTRPREP									
MODS 17	1OPBULK	27	MODS 17	1OPBULK	27	MODS 17	1OPBULK	24	MODS 17	1OPBULK	22	MODS	1OPBULK	22	mods	1OPbulk
MODS 17	1OPPREF	28	MODS 17	1OPPREF	28	MODS 17	1OPPREF	25	MODS 17	1OPPREF	23	MODS	1OPPREF	23	mods	1OPpref
MODS 17	1OPTRANS	29	MODS 17	1OPTRANS	29	MODS 17	1OPTRANS									
MODS 17	1PLATFRM	30	MODS 17	1PLATFRM	30	MODS 17	1PLATFRM	26	MODS 17	1PLATFRM	24	MODS	1PLATFRM	24	mods	1Platfrm
MODS 17	1POUCHNG	31	MODS 17	1POUCHNG	31	MODS 17	1POUCHNG	27	MODS 17	1POUCHNG	25	MODS	1POUCHING	25	mods	1POUCHNG
MODS 17	1PRESORT	32	MODS 17	1PRESORT	32	MODS 17	1PRESORT									
MODS 17	1SACKS_H	33	MODS 17	1SACKS_H	33	MODS 17	1SACKS_H	28	MODS 17	1SACKS_H	26	MODS	1SACKS H	26	mods	1SackS_h
MODS 17	1SCAN	34	MODS 17	1SCAN	34	MODS 17	1SCAN	29	MODS 17	1SCAN	27	MODS	1SCAN	27	mods	1SCAN
MODS 18	BUSREPLY	35	MODS 18	BUSREPLY	35	MODS 18	BUSREPLY	30	MODS 18	BUSREPLY	28	MODS	BUSREPLY	28	mods	BusReply
MODS 18	EXPRESS	36	MODS 18	EXPRESS	36	MODS 18	EXPRESS	31	MODS 18	EXPRESS	29	MODS	EXPRESS	29	mods	express
MODS 18	MAILGRAM	37	MODS 18	MAILGRAM	37	MODS 18	MAILGRAM	32	MODS 18	MAILGRAM	30	MODS	MAILGRAM	30	mods	MAILGRAM
MODS 18	REGISTRY	38	MODS 18	REGISTRY	38	MODS 18	REGISTRY	33	MODS 18	REGISTRY	31	MODS	REGISTRY	31	mods	Registry
MODS 18	REWRAP	39	MODS 18	REWRAP	39	MODS 18	REWRAP	34	MODS 18	REWRAP	32	MODS	REWRAP	32	mods	REWRAP
MODS 18	1EEQMT	40	MODS 18	1EEQMT	40	MODS 18	1EEQMT	35	MODS 18	1EEQMT	33	MODS	1EEQMT	33	mods	1EEQMT
MODS 19	INTL	41	MODS 19	INTL	41	MODS 19	INTL ISC	36	MODS 19	INTL	34	MODS	INTL	34	mods	INTL
MODS 19	PMPC	42	MODS 19	PMPC	42	MODS 19	PMPC									
MODS 41	LD41							37	MODS 41	LD41	35	MODS	LD41	35	mods	LD41
MODS 42	LD42							38	MODS 42	LD42	36	MODS	LD42	36	mods	LD42
MODS 43	LD43							39	MODS 43	LD43	37	MODS	LD43	37	mods	LD43
MODS 44	LD44							40	MODS 44	LD44	38	MODS	LD44	38	mods	LD44
MODS 48	LD48 EXP							41	MODS 48	LD48 EXP	39	MODS	LD48 EXP	39	mods	LD48 Exp
MODS 48	LD48_SSV							42	MODS 48	LD48_SSV	40	MODS	LD48 SSV	40	mods	LD48_SSv
MODS 49	LD49	43	MODS 49	LD49	43	MODS 49	LD49	43	MODS 49	LD49	41	MODS	LD49	41	mods	LD49
MODS 79	LD79	44	MODS 79	LD79	44	MODS 79	LD79	44	MODS 79	LD79	42	MODS	LD79	42	mods	LD79
MODS 99	1SUPP_F1	45	MODS 99	1SUPP_F1	45	MODS 99	1SUPP_F1	45	MODS 99	1SUPP_F1	43	MODS	1SUPP F1	43	mods	1SUPPORT
MODS 99	1SUPP_F4							46	MODS 99	1SUPP_F4	44	MODS	1SUPP F4	44	mods	1MISC
MODS 48	LD48 OTH													45	mods	LD48 Oth
NONMODS	ALLIED	46	NONMODS	ALLIED	46	NONMODS	ALLIED	47	NON MODS	ALLIED	45	NONMODS	ALLIED			
NONMODS	AUTO/MECH	47	NONMODS	AUTO/MECH	47	NONMODS	AUTO/MECH	48	NON MODS	AUTO/MEC	46	NONMODS	AUTO/MECH	46	Non Mods	
NONMODS	EXPRESS	48	NONMODS	EXPRESS	48	NONMODS	EXPRESS	49	NON MODS	EXPRESS	47	NONMODS	EXPRESS			
NONMODS	MANF	49	NONMODS	MANF	49	NONMODS	MANF	50	NON MODS	MANF	48	NONMODS	MANF			
NONMODS	MANL	50	NONMODS	MANL	50	NONMODS	MANL	51	NON MODS	MANL	49	NONMODS	MANL			
NONMODS	MANP	51	NONMODS	MANP	51	NONMODS	MANP	52	NON MODS	MANP	50	NONMODS	MANP			
NONMODS	MISC	52	NONMODS	MISC	52	NONMODS	MISC	53	NON MODS	MISC	51	NONMODS	MISC			
NONMODS	REGISTRY	53	NONMODS	REGISTRY	53	NONMODS	REGISTRY	54	NON MODS	REGISTRY	52	NONMODS	REGISTRY			

Sources: R2006-1, USPS LR-L-48, R2005-1, USPS LR-K-48 revised; R2001-1, USPS-LR-J-60; R2000-1, USPS-T-24, Appendix I, Page I-7; R97-1, USPS-T-25, Appendix V.
Notes: NA = Non-Auto; A = Auto. In R97-1 total Non-Mods costs was allocated based on the proportion of total worksharing related proportional and total worksharing related fixed costs.

Table A2
USPS Mail Processing Cost Pool Comparison
R2006-1 vs R2005-1, R2001-1, R2000-1 & R97-1

		Worksharing Related Proportional					Worksharing Related Fixed					Non-Workshring Related Fixed				
Source	Cost Pool Abbreviation	R97-1	R2000-1	R2001-1	R2005-1	R2006-1	R97-1	R2000-1	R2001-1	R2005-1	R2006-1	R97-1	R2000-1	R2001-1	R2005-1	R2006-1
BMCS	NMO						X						X	X	X	X
BMCS	OTHR						X						X	X	X	X
BMCS	PLA						X						X	X	X	X
BMCS	PSM						X						X	X	X	X
BMCS	SPB						X						X	X	X	X
BMCS	SSM						X						X	X	X	X
MODS 11	BCS/	X	X	X	X	X										
MODS 11	BCS/DBCS			X	X	X										
MODS 11	OCR/	X	X	X	X	X										
MODS 12	AFSM100														X	X
MODS 12	FSM/	X											X	X	X	X
MODS 12	FSM/1000													X	X	X
MODS 12	LSM/	X	X	X												
MODS 13	MECPARC	X											X	X	X	X
MODS 13	SPBS OTH	X											X	X	X	X
MODS 13	SPBSPRIO	X											X	X	X	X
MODS 13	1SACKS_M						X						X	X	X	X
MODS 13	1TRAYSRT														X	X
MODS 14	MANF	X											X	X	X	X
MODS 14	MANL	X	X	X	X	X										
MODS 14	MANP	X											X	X	X	X
MODS 14	PRIORITY	X											X	X	X	X
MODS 15	LD15	X	X	X	X	X										
MODS 17	1DSPATCH														X	X
MODS 17	1FLATPRP														X	X
MODS 17	1BULK PR	X		X(NA)				X	X(A)							X
MODS 17	1CANCMPP	X							X				X			
MODS 17	1CANCEL									X						X
MODS 17	1MTRPREP									X						
MODS 17	1OPBULK	X		X(NA)		X		X	X(A)	X						
MODS 17	1OPPREF	X		X(NA)		X		X	X(A)	X						
MODS 17	1OPTRANS														X	X
MODS 17	1PLATFRM						X		X	X			X			X
MODS 17	1POUCHNG	X		X(NA)		X		X	X(A)	X						
MODS 17	1PRESORT									X						X
MODS 17	1SACKS_H						X						X	X	X	X
MODS 17	1SCAN	X											X	X	X	X
MODS 18	BUSREPLY	X											X	X	X	X
MODS 18	EXPRESS	X											X	X	X	X
MODS 18	MAILGRAM	X											X	X	X	X
MODS 18	REGISTRY	X											X	X	X	X
MODS 18	REWRAP	X											X	X	X	X
MODS 18	1FEQMT	X											X	X	X	X
MODS 19	INTL	X											X	X	X	X
MODS 19	PMPC														X	X
MODS 41	LD41	X	X	X												
MODS 42	LD42	X	X	X												
MODS 43	LD43	X	X	X												
MODS 44	LD44	X	X	X												
MODS 48	LD48 EXP	X											X	X		
MODS 48	LD48_SSV	X											X	X		
MODS 49	LD49	X						X	X	X						X
MODS 79	LD79	X						X	X	X						X
MODS 99	1SUPP_F1	X								X			X	X		X
MODS 99	1SUPP_F4	X											X	X		
MODS 48	LD48 OTH	X														
NONMODS	ALLIED								X	X			X			X
NONMODS	AUTO/MECH		X	X	X	X										
NONMODS	EXPRESS												X	X	X	X
NONMODS	MANF												X	X	X	X
NONMODS	MANL		X	X	X	X										
NONMODS	MANP												X	X	X	X
NONMODS	MISC												X	X	X	X
NONMODS	REGISTRY												X	X	X	X

Sources: R2006-1, USPS LR-L-48, R2005-1, USPS LR-K-48 revised; R2001-1, USPS-LR-J-60; R2000-1, USPS-T-24, Appendix I, Page I-7; R97-1, USPS-T-25, Appendix V.
Notes: NA = Non-Auto; A = Auto. In R97-1 total Non-Mods costs was allocated based on the proportion of total worksharing related proportional and total worksharing related fixed costs.