

USPS-RT-8

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

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

REBUTTAL TESTIMONY  
OF  
MICHAEL W. MILLER  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

**TABLE OF CONTENTS**

- AUTOBIOGRAPHICAL SKETCH ..... iii
- I. PURPOSE AND SCOPE OF TESTIMONY ..... 1
- II. THE PROPOSED FLATS COST MODEL MODIFICATIONS ARE NOT APPROPRIATE ..... 2
  - A. RESULTS-DRIVEN COST STUDIES SHOULD BE REJECTED ..... 2
  - B. THE INCOMING SECONDARY COVERAGE FACTORS SHOULD NOT BE INCLUDED ..... 3
    - 1. THE MPA/USPS-T42-1(A) ESTIMATE HAS BEEN MISUSED..... 3
    - 2. THE ORIGINAL FINALIZATION RATES ARE NOT ACCURATE ..... 4
    - 3. THE REVISED FINALIZATION RATES DEMONSTRATE THAT THE USPS-LR-L-43 RESULTS ARE REASONABLE ..... 6
    - 4. ALL FLATS COST MODELS WOULD HAVE TO BE MODIFIED ..... 8
  - C. COST BY SHAPE ESTIMATES SHOULD NOT BE MANIPULATED TO EXPAND RATE CATEGORY COST DIFFERENCES ..... 9
    - 1. AGGREGATE COST BY SHAPE ESTIMATES SHOULD NOT BE USED..... 9
    - 2. TASK-BASED COST POOL CLASSIFICATIONS SHOULD BE USED ..... 10
    - 3. FLATS PREPARATION COSTS SHOULD NOT AFFECT RATE CATEGORY COST DIFFERENCES..... 12
    - 4. INTERVENOR PROPOSALS TO DISAGGREGATE THE NON-MODS ALLIED COST POOL ARE INAPPROPRIATE ..... 14
    - 5. THE COMMISSION HAS ALREADY DETERMINED THAT THE 1SUPP\_F1 COST POOL IS FIXED ..... 16
  - D. WITNESS STRALBERG'S BUNDLE BREAKAGE COMMENTS SHOULD BE IGNORED ..... 17
  - E. THE DOCKET NO. C2004-1 TESTIMONY IS STILL RELEVANT ..... 18
- III. THE PARCEL POST COST MODEL SHOULD NOT BE USED TO JUSTIFY LOWER PASSTHROUGH VALUES ..... 20
  - A. THE AGE OF A STUDY DOES NOT NECESSARILY MEAN THE RESULTS ARE INVALID..... 21

B. CRA ADJUSTMENT FACTORS CANNOT NECESSARILY BE USED  
TO ASSESS COST MODEL VALIDITY ..... 27

C. SELECTIVE COST POOL ADJUSTMENTS SHOULD NOT BE  
INCLUDED ..... 29

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**REBUTTAL TESTIMONY  
OF  
MICHAEL W. MILLER**

5

**AUTOBIOGRAPHICAL SKETCH**

6           My name is Michael W. Miller. I am an Economist in Special Studies at the  
7 United States Postal Service. Special Studies is a unit of Corporate Financial Planning  
8 in Finance at Headquarters. I have testified before the Postal Rate Commission on  
9 twelve previous occasions.

10           Most recently, I was the direct flats cost witness (USPS-T-20) and parcels cost  
11 witness (USPS-T-21) in Docket No. R2006-1.

12           In Docket No. MC2006-1, I testified as the Parcel Return Service (PRS) cost  
13 witness (USPS-T-2).

14           In Docket No. R2005-1, I presented two direct testimonies on behalf of the Postal  
15 Service. The first testimony covered First-Class Mail, Periodicals, and Standard Mail  
16 flats mail processing unit cost estimates (USPS-T-19). The second testimony  
17 presented Parcel Post, Bound Printed Matter, and Media Mail / Library Mail non-  
18 transportation cost estimates (USPS-T-20).

19           In Docket No. C2004-1, I testified as a rebuttal witness in opposition to the Time  
20 Warner, et al. complaint case (USPS-RT-1).

21           In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness  
22 on behalf of the Postal Service. The first testimony presented First-Class Mail  
23 letters/cards and Standard Mail letters mail processing unit cost estimates and  
24 worksharing related savings estimates, the Qualified Business Reply Mail (QBRM)  
25 worksharing related savings estimate, the nonstandard surcharge/nonmachinable  
26 surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies (USPS-T-  
27 22). The second testimony presented First-Class Mail, Periodicals, and Standard Mail  
28 flats mail processing unit cost estimates (USPS-T-24).

29           In Docket No. R2000-1, I testified as the direct witness presenting First-Class  
30 Mail letters/cards and Standard Mail letters mail processing unit cost estimates and

1 worksharing related savings estimates (USPS-T-24). My testimony also included the  
2 cost study supporting the nonstandard surcharge. In that same docket, I also testified  
3 as a rebuttal witness (USPS-RT-15). My rebuttal testimony contested key elements of  
4 the worksharing discount proposals presented by several First-Class Mail intervenors,  
5 as well as the Office of the Consumer Advocate (OCA).

6 In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply Mail  
7 (PRM) and QBRM mail processing cost avoidance estimates (USPS-T-23). In that  
8 same docket, I also testified as a rebuttal witness concerning the Courtesy Envelope  
9 Mail (CEM) proposal presented by the OCA (USPS-RT-17).

10 Prior to joining the Special Studies unit in January 1997, I served as an Industrial  
11 Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego,  
12 California. In that capacity, I worked on field implementation projects. For example, I  
13 was the local coordinator for automation programs in San Diego such as the Remote  
14 Bar Coding System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also  
15 responsible for planning the operations for a new Processing and Distribution Center  
16 (P&DC) that was activated in 1993. In addition to field work, I have completed detail  
17 assignments within the Systems/Process Integration group in Engineering. My primary  
18 responsibility during those assignments was the development of Operating System  
19 Layouts (OSL) for new facilities.

20 Prior to joining the Postal Service, I worked as an Industrial Engineer at General  
21 Dynamics Space Systems Division, where I developed labor and material cost  
22 estimates for new business proposals. These estimates were submitted as part of the  
23 formal bidding process used to solicit government contracts.

24 I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa  
25 State University in 1984 and a Master of Business Administration from San Diego State  
26 University in 1990. I also earned a Professional Engineer registration in the State of  
27 California in 1990 and a Methods Time Measurement (MTM) "blue card" certification in  
28 2004.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 This testimony is divided into two sections. The purpose of Section II is to  
3 present rebuttal evidence concerning the proposed modifications to the Periodicals  
4 Outside County flats cost model (USPS-LR-L-43). These modifications have been  
5 recommended by witnesses Glick (MPA/ANM-T-2) and Stralberg (TW-T-2). Section III  
6 addresses witness Luciani's (UPS-T-2) proposal that the Parcel Post cost avoidance  
7 passthroughs be reduced based on concerns he has with the cost model (USPS-LR-L-  
8 46).

1 **II. THE PROPOSED FLATS COST MODEL MODIFICATIONS ARE NOT**  
2 **APPROPRIATE**

3 MPA/ANM witness Glick (MPA/ANM-T-2) and Time Warner witness Stralberg  
4 (TW-T-2) both propose modifications to the Periodicals Outside County flats cost model  
5 (USPS-LR-L-43).<sup>1</sup> As described below, I believe their proposed changes should be  
6 rejected. There is no evidence which leads me to believe that these modifications would  
7 result in more accurate mail processing unit cost estimates by rate category. There is  
8 thus no evidence which leads me to believe that the modifications would improve the  
9 Commission's ability to gauge the value of mailer prebarcoding and/or presorting  
10 activities.

11 **A. RESULTS-DRIVEN COST STUDIES SHOULD BE REJECTED**

12 On page 14 of his testimony, witness Glick proposes that automation 5-digit  
13 presort flats be the cost benchmark for the nonautomation carrier route presort flats rate  
14 category.<sup>2</sup> Attachment 1 shows the incremental impact of the cost model changes  
15 proposed by witness Glick, including the impact of using the revised benchmark.<sup>3</sup>  
16 Column 1 contains my flats cost model results from USPS-LR-L-43. Columns 2 through  
17 7 show the impact of each successive change proposed by witness Glick. The Column  
18 7 figures are also identical to the final estimates contained in MPA/ANM-LR-2.

19 Regardless of whether the nonautomation 5-digit presort flats rate category or  
20 the automation 5-digit presort flats rate category is chosen as the cost benchmark for  
21 the nonautomation carrier route presort flats rate category, each successive change  
22 proposed by witness Glick expands the cost difference.<sup>4</sup> In fact, the first five changes

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<sup>1</sup> See MPA/ANM-T-2, Section III.A.2; TW-T-2, Section III.

<sup>2</sup> While witness Glick dismisses the fact that nonautomation carrier route flats are not required to bear barcodes, I urge the Commission to take this into consideration when evaluating the appropriate benchmark. It should also be pointed out that nonautomation and automation rates are administered in different ways. Automation flats are always assessed bundle-based rates, regardless of the container type (pallets or sacks) in which they are contained. Nonautomation flats, on the other hand, are only assessed bundle-based rates when the mail pieces are entered on pallets. This issue should also be considered when evaluating whether an automation rate category is an appropriate benchmark for a nonautomation rate category.

<sup>3</sup> While a similar analysis has not been developed using witness Stralberg's cost model data, the end result is the same. The 4.326-cent cost difference between 5-digit nonauto flats and nonauto carrier route flats derived in USPS-LR-L-43 expands to a 9.750-cent cost difference as shown in TW-LR-2.

<sup>4</sup> Cost difference figures are contained within the boxed areas for the actual and presort adjusted versions of the model.

1 inflate the cost difference even though they have no bearing whatsoever on the model  
2 cost estimates. It is interesting that witness Glick's proposed changes are completely  
3 one-sided. Common sense tells us that if there are estimating errors within any cost  
4 model they would also, on occasion, result in overstated cost difference measurements.  
5 Results-driven analyses such as that presented by witness Glick should be rejected.

6 **B. THE INCOMING SECONDARY COVERAGE FACTORS SHOULD NOT BE**  
7 **INCLUDED**

8 Several of the modifications proposed by witness Glick are also proposed by  
9 witness Stralberg, although their specific methods for implementing these modifications  
10 differ on occasion. One such modification concerns the addition of manual incoming  
11 secondary coverage factors. I do not believe it is appropriate to include these factors in  
12 the flats cost models. Witnesses Glick and Stralberg disagree. The main focus of this  
13 disagreement concerns witness McCrery's response to MPA/USPS-T42-1(a) (Tr.  
14 11/2853), in which it was estimated that 44.7 percent of flats are finalized in manual  
15 incoming secondary operations.

16 **1. THE MPA/USPS-T42-1(A) ESTIMATE HAS BEEN MISUSED**

17 The information provided in response to MPA/ANM-T42-1(a) was taken from an  
18 analysis produced annually as a means to gauge incoming secondary flats processing  
19 improvement. The figures represent estimates of the percentage of all (mostly non-  
20 carrier route) flats that are finalized in the various incoming secondary operations. While  
21 these data are appropriate for measuring performance, they are not appropriate for cost  
22 modeling purposes. These data are not available by class of mail and cannot be used  
23 as cost model inputs. If cost models were developed for all classes of flats, these  
24 figures could possibly be compared to the aggregate finalization rates from all the cost  
25 models. In the instant proceeding, however, cost models have not been developed for  
26 all flats.

27 Due to the limitations of these data, both witness Glick and witness Stralberg  
28 again rely on results-driven approaches. Witness Glick incorporates arbitrary incoming  
29 secondary factors which estimate that 80 percent of flats are processed on machines

1 and 20 percent of flats are processed manually.<sup>5</sup> He provides no empirical basis for  
2 these estimates, as he admits that they are not an output from any postal data collection  
3 system.<sup>6</sup> Instead, he claims that his cost model results are more reasonable than those  
4 found in USPS-LR-L-43 because the percentage of manual incoming secondary flats  
5 derived from his factors is 36 percent, a value closer to the 44.7 percent figure cited in  
6 the response to MPA/USPS-T42-1(a).<sup>7</sup>

7 In similar fashion, witness Stralberg incorporates arbitrary incoming secondary  
8 factors which estimate that 85 percent of flats are processed on machines and 15  
9 percent of flats are processed manually.<sup>8</sup> Witness Stralberg also provided no empirical  
10 basis for those estimates. Instead, like witness Glick he implies that his results are more  
11 reasonable because the manual incoming secondary percentage derived from his  
12 model's use of the factors is 40 percent, a value closer to the 44.7 percent figure cited in  
13 the response to MPA/USPS-T42-1(a).<sup>9</sup>

14 The fact of the matter is that no one knows the true percentage of total non-  
15 carrier route flats that are finalized in manual incoming secondary operations. The  
16 percentage of non-carrier route flats finalized in manual incoming secondary operations  
17 for each class is therefore also unknown. Consequently, no evidence has been offered  
18 which clearly demonstrates that the inclusion of these factors results in more accurate  
19 Periodicals Outside County mail processing unit cost estimates by rate category.

## 20 **2. THE ORIGINAL FINALIZATION RATES ARE NOT ACCURATE**

21 In fact, there is evidence to the contrary. As witness Stralberg stated, "Given a  
22 modeling task where the available data are not perfect (they hardly ever are), someone  
23 charged with producing a mail flow model to be used as a guide for rate setting still has  
24 an obligation to strive to find the best solution possible with the available data."<sup>10</sup> I could  
25 not agree more. The fact that some "data" may exist, however, does not necessarily  
26 mean that they should be incorporated into a cost model. The data must be evaluated

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<sup>5</sup> See MPA/ANM-T-2, page 19, lines 2 to 6.

<sup>6</sup> See responses to USPS/MPA/ANM-T2-4(a) (Tr. 30/10315) and USPS/MPA/ANM-T2-40(a) (Tr. 30/10367-68).

<sup>7</sup> See MPA/ANM-T-2, page 19, lines 6 to 11; response to USPS/MPA/ANM-T2-4(a) (Tr. 30/10315).

<sup>8</sup> See TW-T-2, page 13, lines 15 to 18.

<sup>9</sup> See TW-T-2, page 13, line 24; response to USPS/TW-T2-7 (Tr. 31/10580); response to USPS/TW-T2-19 (Tr. 31/10600).

1 on a case-by-case basis. A close evaluation of the 44.7 percent estimate from the  
2 response to MPA/USPS-T42-1(a) demonstrates its inappropriateness for use in the flats  
3 cost model. Apparently, however, witness Stralberg felt that he was unable to perform  
4 such an evaluation of the 44.7 percent figure.<sup>11</sup> Witness Glick also made no attempt to  
5 evaluate this figure.<sup>12</sup>

6 The results of such an evaluation are contained in Attachment 2. Part A contains  
7 an estimate of the candidate incoming secondary volume. This estimate is based on FY  
8 2005 RPW flats volumes for all non-carrier mail pieces, as well as the portion of  
9 Periodicals Outside County nonautomation carrier route presort flats that are estimated  
10 to be processed through incoming secondary operations due to bundle breakage.<sup>13</sup>

11 Part B contains the figures used as the basis for the response to MPA/USPS-  
12 T42-1(a). The Automated Flat Sorting Machine Model 100 (AFSM100) and Upgraded  
13 Flat Sorting Machine Model 1000 (UFSM1000) volumes shown in Part B have been  
14 obtained from the Management Operating Data System (MODS), which collects the  
15 actual machine piece counts from End-Of-Run (EOR) reports. Consequently, those  
16 figures should be precise. The manual volumes, however, have been obtained from  
17 "flash" reports, which are not based on machine piece counts and which I generally  
18 regard as overstating volume figures.

19 After comparing these figures, it is clear that the total incoming secondary flat  
20 volume provided in response to MPA/USPS-T42-1(a) should have been viewed as  
21 suspect for cost modeling purposes. That volume estimate (29,501,659,000 pieces<sup>14</sup>)  
22 exceeds the total FY 2005 incoming secondary candidate RPW volume estimate  
23 (23,632,029,575) by roughly six billion pieces.

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<sup>10</sup> See response to USPS/TW-T2-8(b) (Tr. 31/10581).

<sup>11</sup> See response to USPS/TW-T2-6(a), where he states, "I don't know in which sense you would have expected me to 'evaluate' this empirical basis...." (Tr. 31/10576) While witness Stralberg briefly reviews the overall volume figure underlying the 44.7 percent figure (Tr. 31/10577), this review is cursory and inadequate.

<sup>12</sup> See response to USPS/MPA/ANM-T2-1(a) (Tr. 30/10311).

<sup>13</sup> According to the estimates found in USPS-LR-L-43, page 49, 9.54 percent of nonautomation carrier route flats are processed through incoming secondary operations. The figure shown in Part A is therefore 9.54 percent of the total FY 2005 nonautomation carrier route volume. On page 22 of his testimony, witness Stralberg expresses his view that some bundle breakage data are excessive. To the extent that his hypothesis is correct, it should be noted that the nonautomation carrier route volume in Part A of Attachment 2 would decrease.

1 Part C contains revised estimates of the finalization percentages found in Part B.  
2 These estimates have been developed using the assumption that the discrepancy of six  
3 billion pieces is due solely to the manual volume estimate.

4 Part D contains a further modification. These estimates have been developed  
5 with the Parcel Post and Media Mail / Library Mail volumes removed from the analysis.<sup>15</sup>

6 The finalization percentages shown in Part D of Attachment 2 differ substantially  
7 from those provided in the response to MPA/USPS-T42-1(a). The AFSM100 finalization  
8 rate has increased by 13 percentage points, while the manual incoming secondary  
9 finalization rate has decreased by 14 percentage points.

### 10 3. THE REVISED FINALIZATION RATES DEMONSTRATE THAT THE 11 USPS-LR-L-43 RESULTS ARE REASONABLE

12 As stated above, finalization rates are not available by class of mail. I therefore  
13 do not view these data as particularly meaningful when it comes to class-specific  
14 evaluations. These data can be used, however, to evaluate flats in total. All things  
15 considered, I think these data demonstrate that the USPS-LR-L-43 cost model results  
16 are reasonable. Attachment 3 compares the USPS-LR-L-43, MPA/ANM-LR-2, and TW-  
17 LR-2 results to the revised finalization rates calculated in Part D of Attachment 2.

18 The top portion of Attachment 3 contains the results from the USPS-LR-L-43 cost  
19 models. The boxed area in the middle shows the aggregate finalization rates for all  
20 three cost models in USPS-LR-L-43 and compares it to the revised finalization rates  
21 calculated in Part D of Attachment 2. The bottom portion of Attachment 3 shows the  
22 results from MPA/ANM-LR-2 and TW-LR-2.<sup>16</sup>

23 The revised finalization rates indicate that roughly 65 percent of flat-shaped mail  
24 pieces are finalized in AFSM100 incoming secondary operations. The results from the  
25 USPS-LR-L-43 aggregate cost models show that 70 percent of flat-shaped mail pieces  
26 are processed through those operations. Given that First-Class Mail single-piece flats

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<sup>14</sup> The figure provided in response to MPA/USPS-T42-1(a) was 29,501,658,000. The difference is due to rounding error.

<sup>15</sup> It is assumed that these mail pieces would be processed through Bulk Mail Centers (BMCs) with parcel-shaped mail pieces of the same subclass.

<sup>16</sup> Due to witness Stralberg's assumption concerning firm bundles, the nonautomation basic presort flats percentages from TW-LR-2 were calculated by dividing the percentage of flats finalized in a given incoming secondary operation by the total flats finalized in all incoming secondary operations.

1 have not been modeled and included in Attachment 3, it is likely that the aggregate  
2 percentage would have decreased somewhat had that flats mail stream been  
3 modeled.<sup>17</sup>

4 When comparing the revised UFSM100 and manual finalization rates from  
5 Attachment 2 to the USPS-LR-L-43 results in Attachment 3, it appears that the cost  
6 models overstate the percentage of flats finalized in UFSM100 incoming secondary  
7 operations and understate the percentage of flats finalized in manual operations. As  
8 stated above, the manual percentage would likely have increased had a cost model for  
9 First-Class Mail single-piece flats been developed and incorporated into Attachment 3.

10 It is also likely that the incorporation of the revised UFSM1000 strategy into the  
11 cost models has resulted in overstated UFSM1000 costs.<sup>18</sup> Unfortunately, the last flats  
12 density and acceptance rate study was conducted in 2001 and presented in Docket No.  
13 R2001-1, a time period that preceded the implementation of the revised UFSM1000  
14 strategy.<sup>19</sup> Consequently, there are no data that can be used to adequately determine  
15 how the UFSM1000 assumptions in the cost model should be changed. While witness  
16 Stralberg attempted to modify the UFSM1000 assumptions,<sup>20</sup> the basis for making those  
17 modifications is not adequate. He uses a results-driven approach that focuses on the  
18 “scrubbed” FY 2005 MODS values from USPS-LR-L-56. Those data are used to  
19 develop productivity estimates in the USPS-LR-L-43 cost models. It would have been  
20 preferable to conduct a study that focuses on UFSM1000 processing methods. As  
21 stated above, no such study has been conducted at this time. Witness Stralberg’s  
22 modifications are therefore inappropriate.

23 Although I do not believe that the aggregate revised finalization rates can be  
24 used to evaluate class-specific finalization rates, I do think Attachment 3 contains some  
25 additional interesting information pertaining to class. Witness Glick indicates (citing  
26 witness McCrery) that the percentage of Periodicals Outside County flats that are

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<sup>17</sup> Unlike the First-Class Mail presort flats, Periodicals Outside County flats, and Standard Mail Regular flats represented by the USPS-LR-L-43 cost models, First-Class Mail single-piece flats are not required to have machine-printed addresses, nor are they required to be presorted and/or prebarcoded. Thus, I would expect them to be processed manually more frequently than presort flats.

<sup>18</sup> See Docket No. R2005-1, USPS-T-19, page 5, lines 19 to 22, and page 7, lines 10 to 22.

<sup>19</sup> See Docket No. R2001-1, USPS-LR-J-63.

<sup>20</sup> See TW-T-2, Section III.3.

1 processed manually may be higher than the system wide average.<sup>21</sup> The USPS-LR-L-  
2 43 results shown in Attachment 3 do indicate that the manual incoming secondary  
3 finalization rate for Periodicals Outside County is higher than the same rate for either  
4 First-Class Mail presort flats or Standard Mail Regular flats. This result is not surprising  
5 given that the mail characteristics data show that fewer Periodicals Outside County flats  
6 are AFSM100 compatible. Witness Stralberg also hypothesizes that the manual  
7 incoming secondary finalization rate for Periodicals Outside County flats could be higher  
8 than the average values because zones with only a few carrier routes would receive  
9 manual incoming secondary processing.<sup>22</sup> In reality, this issue would apply to all classes  
10 of flats and is not something that solely affects Periodicals.

#### 11 **4. ALL FLATS COST MODELS WOULD HAVE TO BE MODIFIED**

12 One final issue should be mentioned concerning the coverage factors  
13 modifications proposed by witness Glick and witness Stralberg. To the extent the  
14 Commission views this modification as necessary, it is not a modification that affects  
15 Periodicals Outside County flats only. This modification should, theoretically, be  
16 incorporated into the First-Class Mail presort flats and Standard Mail Regular flats cost  
17 models as well. Witness Glick and witness Stralberg provide no explanation as to why  
18 this change would be appropriate for the Periodicals Outside County flats cost model  
19 only.<sup>23</sup>

20  
21 Based on the information presented in Attachments 2 and 3, I am confident that  
22 the cost models in USPS-LR-L-43 accomplish the purpose for which they were originally  
23 intended: to isolate the cost differences by rate category related to the presorting and  
24 prebarcoding activities performed by mailers, given the data that are available. I  
25 therefore urge the Commission to reject any attempt to incorporate arbitrary incoming  
26 secondary coverage factors into any of the flats cost models, including the Periodicals  
27 Outside County cost model, on the basis of a mis-used estimate.

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<sup>21</sup> See response to USPS/MPA/ANM-T2-3(b) (Tr. 30/10312).

<sup>22</sup> See TW-T-2, page 13, lines 4 to 6.

<sup>23</sup> In the event that such changes are deemed appropriate, it should be noted that other intervenors who might be affected have not been litigating this issue.

1           **C. COST BY SHAPE ESTIMATES SHOULD NOT BE MANIPULATED**  
2           **TO EXPAND RATE CATEGORY COST DIFFERENCES**

3           Mail processing unit cost by shape estimates can be found in USPS-LR-L-53.  
4           These estimates consist of separately estimated "cost pools." It is my understanding  
5           that the cost pool estimates are calculated using a combination of accounting and  
6           MODS data, distribution key estimates, cost pool specific piggyback factor estimates,  
7           and cost pool specific volume variability factor estimates. In the instant proceeding,  
8           witness Glick and witness Stralberg propose several cost model changes that affect the  
9           cost by shape and cost pool estimates. These proposed changes include: reliance on  
10          the aggregate cost by shape estimate for Periodicals Outside County flats / parcels,  
11          revised cost pool classifications, a "1FLATPRP" cost pool modification, an "ALLIED"  
12          cost pool modification, and a "1SUPP\_F1" cost pool modification. These proposed  
13          modifications should be rejected for the reasons outlined below.

14                   **1. AGGREGATE COST BY SHAPE ESTIMATES SHOULD NOT BE**  
15                   **USED**

16          In USPS-LR-L-43, I developed model cost estimates by rate category that were  
17          weighted together using base year volumes and compared to the Periodicals Outside  
18          County flats mail processing unit cost by shape estimate from USPS-LR-L-53. Both  
19          witness Glick and witness Stralberg propose that the aggregate Periodicals Outside  
20          County mail processing unit cost by shape estimate for flats and parcels should be used  
21          as an alternative.

22          Witness Glick attempts to justify this change based on anomalous parcels cost  
23          estimates that he admits have not been studied.<sup>24</sup> Witness Stralberg summarizes his  
24          conclusion in the following statement: "Whatever these 'parcels' are, they are probably  
25          more like non-machinable flats than letters."<sup>25</sup>

26          To the extent any errors, like those they hypothesize, affect the cost by shape  
27          estimates, they are not likely to always overstate the actual values. In the realm of cost  
28          estimating, any estimate could understate, accurately state, or overstate the actual  
29          value. The Commission should also consider that this modification is not something that

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<sup>24</sup> See MPA/ANM-T-2, page 20, lines 9 to 19.

1 solely affects Periodicals Outside County flats. Similar modifications could be  
2 incorporated into the other flats cost studies. In fact, it is my understanding that  
3 adjustments have been made to the flats cost by shape estimates to account for  
4 differences related to how flats are categorized in Postal Service data collection  
5 systems. While these adjustments may be needed, the averaging of flats and parcels  
6 cost by shape estimates leads to an overstatement of flats unit costs. Witness Glick and  
7 witness Stralberg have therefore gone too far.

## 8 **2. TASK-BASED COST POOL CLASSIFICATIONS SHOULD** 9 **BE USED**

10 Cost pool classifications can have a big impact on the cost differences between  
11 rate categories. Consequently, these classifications have been debated a great deal in  
12 past rate cases. In my USPS-T-20 testimony, I describe how I classify cost pools as  
13 proportional or fixed.<sup>26</sup> Cost pools are classified as proportional if they contain costs for  
14 piece or bundle distribution operations that are related to the tasks actually modeled.  
15 Both witness Glick and witness Stralberg propose expanding the number of proportional  
16 cost pools to include those representing tasks that are unrelated to the tasks actually  
17 modeled. Their proposed cost pool classifications are not appropriate and should  
18 therefore be rejected.

19 Witness Glick attempts to justify his proposal by citing an interrogatory response I  
20 made concerning my parcel cost testimony (USPS-T-21).<sup>27</sup> In that interrogatory, I was  
21 asked to explain why I classified the 1MECPARC cost pool as proportional in the Parcel  
22 Post cost model. That cost pool represents mechanized operations that are used to sort  
23 Non Machinable Outsides (NMO) parcels at non-BMC MODS facilities. To the best of  
24 my knowledge, there are no data that could be used to estimate the percent of NMOs  
25 processed on this equipment at MODS facilities. Consequently, these operations were  
26 not explicitly included in the cost models. Instead, the models rely on the assumption  
27 that all NMOs are processed manually at plants. Despite this fact, this cost pool clearly  
28 represents tasks in which Parcel Post NMOs are sorted from the 3-digit level to the 5-

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<sup>25</sup> See TW-T-2, page 24, lines 14 to 15.

<sup>26</sup> See USPS-T-20, page 6, lines 14 to 20.

<sup>27</sup> See MPA/ANM-T-2, page 21, line 22, to page 22, line 10.

1 digit level at plants. Those operations have been specifically established for that  
2 purpose. Witness Glick's comparison is therefore misguided, because the additional  
3 cost pools he attempts to classify as proportional do not represent operations that have  
4 been specifically established to sort Periodicals Outside County flats (e.g., BCS,  
5 MANL).

6         Witness Stralberg and witness Glick also make the point that sampled  
7 employees may be clocked into the wrong operation when attempting to justify their cost  
8 pool classifications.<sup>28</sup> While circumstances such as those described could occur, it is  
9 difficult to imagine that any such problems would always result in a situation where the  
10 proportional costs are understated. In fact, some cost pools are classified as  
11 proportional even though they represent tasks that are not actually included in the mail  
12 flow models (a point that is discussed in more detail below). When using a hybrid  
13 costing approach like that relied upon for the past several cases, there is a continuum of  
14 cost results that could be obtained. The "clearly capturable" cost avoidance and full cost  
15 difference approaches lie at opposite ends of that continuum.<sup>29</sup> In my opinion, it is best  
16 to use a conservative approach in classifying cost pools as proportional. I would note  
17 that the Commission has also relied on a conservative approach in the past.

18         Finally, as with the other changes proposed by witness Glick and witness  
19 Stralberg, they have provided no explanation as to why this modification should only  
20 affect Periodicals Outside County flats. If the Commission were to determine that more  
21 liberal cost pool classifications were appropriate, these classifications should affect the  
22 cost studies for all shapes and classes of mail.<sup>30</sup>

23         Witness Glick and witness Stralberg have offered no data that in my mind  
24 substantiate the claims that they make concerning cost pool classifications. Their  
25 rationale consists of nothing but conjecture. I therefore believe that their proposals to  
26 classify additional cost pools as proportional should be rejected.

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<sup>28</sup> See TW-T-2, page 24, lines 20 to 25; MPA/ANM-T-2, page 21, lines 7 to 21.

<sup>29</sup> See PRC Op. MC95-1, Section IV.D.1.

<sup>30</sup> In the event that such changes are deemed appropriate, it should be noted that other intervenors who might be affected have not been litigating this issue.

1                   **3. FLAT PREPARATION COSTS SHOULD NOT AFFECT RATE**  
2                   **CATEGORY COST DIFFERENCES**

3           All flat-shaped mail pieces are entered in bundles and/or containers such that the  
4 mail pieces must be "prepped" before being processed in piece distribution operations,  
5 whether those mail pieces are processed on equipment or not. The method of piece  
6 distribution, however, has historically affected the amount of prepping required. When  
7 the AFSM100 program was first implemented, Flat Mail Carts (FMC) were deployed  
8 with the machines and were used as a preparation tool. Mail handlers removed the flats  
9 from containers, opened the bundles, disposed of the packaging, and loaded the mail  
10 pieces onto those carts. The carts were then secured and staged for later processing. In  
11 piece distribution operations, AFSM100 clerks then unloaded those mail pieces and  
12 placed them on the feeding modules. The carts are also now used to prep mail for  
13 UFSM1000 operations to some extent. In contrast, mail pieces that are sorted manually  
14 do not have to be loaded and unloaded from FMC carts. They do, however, still have to  
15 be removed from the original containers and unbundled, if required.

16           When the AFSM100 program was implemented, MODS operation number 035  
17 was established. This operation is used to collect the costs related to FMC prepping  
18 activities. In the USPS-LR-L-53 cost by shape estimates, 035 costs are mapped to the  
19 "1FLATPRP" cost pool. In fact, that is the only operation mapped to that cost pool. In  
20 USPS-LR-L-43, I classified this cost pool as fixed because the costs do not generally  
21 vary for the non-carrier route rate categories; in addition, future AFSM100 modifications  
22 are likely to reduce the flats preparation cost differences between carrier route and non-  
23 carrier route mail. Because this cost pool is fixed, it had no impact on the cost  
24 differences by rate category.

25           Both witness Glick and witness Stralberg have proposed that a percentage of this  
26 cost pool should be classified as proportional in a manner that affects the cost  
27 differences by rate category. Witness Glick believes this change is warranted because  
28 Periodicals nonautomation carrier route presort flats are being "double charged" for  
29 preparation activities.<sup>31</sup> He applies a completely arbitrary factor of 50 percent to the cost

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<sup>31</sup> See MPA/ANM-T-2, page 23, lines 9 to 14. At the very least this is an oversimplification. The In-Office Cost System (IOCS) cannot be used to isolate a Periodicals Outside County nonautomation carrier route

1 pool such that half of it is attributed to non-carrier route flats only, and the other half is  
 2 attributed to all flats.<sup>32</sup> Witness Glick admits that this factor was judgmental and lacks  
 3 any empirical basis.<sup>33</sup>

4 Witness Stralberg claims that operation 035 costs are part of the cost of using  
 5 flats sorting machines.<sup>34</sup> He makes cost model adjustments based on the extent to  
 6 which carrier route and non-carrier route flats are processed through FSM operations.<sup>35</sup>

7 If there was ever a time when it might have been appropriate to classify flats  
 8 preparation costs as "proportional" costs, it certainly is not now. Like the cards / letters  
 9 automation program before it, the flats automation program continues to evolve. One  
 10 such modification concerns the Automatic Induction (AI) retrofits to the AFSM100. As  
 11 witness McCrery states, and witness Glick and witness Stralberg confirm, two-thirds of  
 12 the AFSM100 machines will have been retrofitted with the AI system by the test year.<sup>36</sup>  
 13 As the Decision Analysis Report (DAR) for this program states:

14  
 15 AFSM-ai improves the Flat Mail Preparation operation, by relocating the prep  
 16 operation adjacent to the AFSM 100, and by replacing the arrangement of Flat  
 17 Mail Carts (FMC) and other containers with a state of the art preparation  
 18 operation and transport system. The prep system consists of a container  
 19 unloader, at which bundles of mail are placed onto a transport belt, which in turn  
 20 distributes the bundles of flats among several ergonomically designed  
 21 workstations. The transport belt also can be used to distribute flat mail trays to  
 22 the prep workstations.

23  
 24 Each workstation is staffed by one Mail Handler. The employee opens each  
 25 bundle of flat mail and stacks the flats into an empty Automation Compatible Tray  
 26 (ACT). Debris such as plastic wrap, strapping, string, and rubber bands is taken  
 27 away by an integrated pneumatic tube collection system. When the ACT is fully  
 28 loaded, the employee releases it for transport to the feed end of the AFSM 100  
 29 and the system places another empty ACT onto the workstation shelf.<sup>37</sup>

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presort flats delivery unit cost estimate. Consequently, the Standard Mail ECR delivery unit cost estimate has been used as a proxy. The extent to which the actual delivery cost might differ from the proxy is unknown.

<sup>32</sup> See MPA/ANM-T-2, page 23, lines 15 to 18.

<sup>33</sup> See responses to USPS/MPA/ANM-T2-7(a) (Tr. 30/10321) and USPS/MPA/ANM-T2-41 (Tr. 30/10369).

<sup>34</sup> See TW-T-2, page 10, lines 8 to 10.

<sup>35</sup> See TW-T-2, page 10, line 17, to page 11, line 15.

<sup>36</sup> See responses to USPS/MPA/ANM-T2-7(b) (Tr. 30/10321) and USPS/TW-T2-5(a) (Tr. 31/10574), respectively.

1           Based on this task description, mail handlers will no longer have to load, secure,  
2 and position FMCs in staging areas. In fact, the tasks that mail handlers will perform in  
3 an AI environment do not appear to be significantly different from those tasks required  
4 to prepare carrier route bundles at Delivery Units. At the very least, it would appear that  
5 the prepping cost differences would shrink.<sup>38</sup>

6           Although the Postal Service has not currently approved funding for retrofitting all  
7 the machines with AI, my past experience is that virtually all machines are eventually  
8 modified.<sup>39</sup> It is also my understanding that it is not possible to specifically extract the  
9 flats preparation cost savings from the AI DAR. Consequently, the 1FLATPRP cost pool  
10 was not modified in any way to reflect test year flat preparation savings. Given this fact,  
11 it is likely that the value of that cost pool has been overstated. Regardless, this cost  
12 pool should not influence rate category cost differences because the AI system is going  
13 to ultimately reduce flats preparation cost differences between carrier route and non-  
14 carrier route mail.

15           Finally, as with the other changes proposed by witness Glick and witness  
16 Stralberg, they have provided no explanation as to why this modification should only  
17 affect Periodicals Outside County flats. If the Commission were to determine that this  
18 modification were appropriate, it should be incorporated into all the cost models found in  
19 USPS-LR-L-43.<sup>40</sup> As explained above, however, this change is not appropriate at this  
20 time. The proposal to modify the 1FLATPRP cost pool should therefore be rejected.

#### 21                   **4. INTERVENOR PROPOSALS TO DISAGGREGATE THE NON-MODS** 22                   **ALLIED COST POOL ARE INAPPROPRIATE**

23           Another cost pool which has received considerable attention in this case is the  
24 non-MODS "ALLIED" cost pool. In USPS-LR-L-43, I classified this cost pool as fixed.  
25 Witness Glick and witness Stralberg attempt to classify a fraction of that cost pool as  
26 proportional. The basis that they use for doing so is an interrogatory response from

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<sup>37</sup> See USPS-LR-L-194, page 3 (internal citation omitted).

<sup>38</sup> These costs would still be incurred, regardless of whether the costs are considered to be "mail processing" or "delivery" costs.

<sup>39</sup> It is my understanding that some facilities currently have problems accommodating these retrofits due to space limitations. However, these problems tend to work themselves out over the long run.

<sup>40</sup> In the event that such changes are deemed appropriate, it should be noted that other intervenors who might be affected have not been litigating this issue.

1 Postal Service witness Van-Ty-Smith in which it was estimated that 37 percent of the  
2 tallies associated with that cost pool were related to bundle sorting operation. After  
3 making this adjustment, 0.393 cents were shifted from the fixed to the proportional  
4 classification.

5 Selective attempts to disaggregate costs below the cost pool level should be  
6 discouraged. The comparison of weighted cost model results to cost pools is not a  
7 perfect comparison. While every proportional cost pool contains at least some costs  
8 bearing a relationship to the tasks actually represented in the cost models, there are  
9 also costs in some cost pools that have not been modeled.

10 The "1OPBULK" and "1OPPREF" cost pools are examples of such cost pools.  
11 These cost pools represent opening unit activities. Bundle sorting operations are often  
12 performed using these operation numbers. Given that bundle sorting operations are  
13 included in the mail flow models, these cost pools have been classified as proportional  
14 in USPS-LR-L-43. The opening units are often the first stop for containers when they  
15 enter a facility. Postal employees then sort these containers based on the next  
16 operation to which they should be directed based on the specific sortation level  
17 associated with that container. In other words, the opening unit cost pools contain costs  
18 beyond those related to bundle sorting. Despite this fact, the entire values of these cost  
19 pools were classified as being proportional.

20 A tally analysis was conducted on these two cost pools using the same  
21 framework as that relied upon to develop the 37-percent figure for the ALLIED cost pool  
22 described above. The results of this analysis showed that bundle sorting costs  
23 represent an estimated 56-percent and 47-percent of the 1OPBULK and 1OPPREF cost  
24 pool values, respectively. Using the logic employed by both witness Glick and witness  
25 Stralberg, 44-percent and 53-percent of the 1OPBULK and 1OPPREF cost pool values  
26 should be shifted from a proportional classification to a fixed classification. If this  
27 modification were to be made using the cost pool values relied upon by both witness  
28 Glick and witness Stralberg, 0.103 cents and 0.236 cents, or a total of 0.339 cents,  
29 would be shifted from the proportional classification to the fixed classification. This  
30 change would almost completely counterbalance the ALLIED adjustment proposed by  
31 witness Glick and witness Stralberg. When asked why this adjustment was not

1 performed, witness Glick assumed the non-bundle sorting costs associated with these  
2 cost pools were small and therefore made no attempt to adjust the cost pool.<sup>41</sup> Witness  
3 Stralberg also made no attempt to modify this cost pool.<sup>42</sup>

4 I am not suggesting that this modification should actually be performed. I do not  
5 believe such analyses below the cost pool level should be conducted because volume  
6 variability factors and piggyback factors are developed at the cost pool level, not at a  
7 task level below the cost pool level. A proper analysis would have to consider the extent  
8 to which these factors need to be de-averaged for component activities. The  
9 multiplication of task-related tallies by an overall cost pool value may therefore not be  
10 an accurate method for disaggregating those costs. Furthermore, if one cost pool is  
11 analyzed at this level of detail, all cost pools should be analyzed at this level of detail. I  
12 imagine that such modifications would, if they were typically performed, probably  
13 balance out.

14 Finally, as with the other changes proposed by witness Glick and witness  
15 Stralberg, they provide no explanation as to why this modification should only affect  
16 Periodicals Outside County flats. If the Commission were to determine that analyses  
17 below the cost pool level were appropriate, they would affect the cost studies for all  
18 shapes and classes of mail.<sup>43</sup> As explained above, however, these analyses are not  
19 appropriate. The proposal to modify the ALLIED cost pool should therefore be rejected.

## 20 **5. THE COMMISSION HAS ALREADY DETERMINED THAT THE** 21 **1SUPP\_F1 COST POOL IS FIXED**

22 In the USPS-LR-L-43 cost models, the "1SUPP\_F1" cost pool has been  
23 classified as a fixed cost pool. Witness Glick proposes classifying a percentage of the  
24 costs from this cost pool as proportional, using a methodology similar to that used to  
25 develop piggyback factors.<sup>44</sup> First of all, the fact that a cost pool could be impacted by  
26 worksharing does not necessarily mean that those costs would vary by rate category  
27 such that the cost pool should be classified as proportional. For example, the Business

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<sup>41</sup> See response to USPS/MPA/ANM-T2-12(a) and (b) (Tr. 30/10328-29).

<sup>42</sup> See response to USPS/TW-T2-14(b) (Tr. 31/10594).

<sup>43</sup> In the event that such changes are deemed appropriate, it should be noted that other intervenors who might be affected have not been litigating this issue.

<sup>44</sup> See MPA/ANM-T-2, page 22, lines 14 to 20.

1 Mail Entry Unit (BMEU) activities related to the acceptance and verification of mailings  
2 obviously are affected by mailer worksharing activities. The costs related to the LD79  
3 cost pool, however, have not been classified as proportional in USPS-LR-L-43. In  
4 addition, neither witness Glick nor witness Stralberg proposed that they should be  
5 classified as proportional.

6 This is not the first time that the classification for the 1SUPP\_F1 cost pool has  
7 been called into question. The classification for several cost pools was scrutinized by  
8 the Commission in Docket No. R2000-1. In that docket, the Commission stated:

9  
10 Postal Service witness Miller confirms that worksharing could affect the  
11 costs in platform, support, and non-MODS allied pools. The Commission  
12 finds these pools are affected by worksharing activities (including mail  
13 preparation), and treats them as worksharing related (fixed) in the  
14 calculation of First-Class Mail worksharing savings.<sup>45</sup>  
15

16 These classification recommendations pertained to the presort letters cost  
17 models. There is no reason, however, that the 1SUPP\_F1 classification should differ for  
18 the cost models supporting other shapes of mail. Finally, as with the other changes  
19 proposed by witness Glick, he has provided no explanation as to why this modification  
20 should only affect Periodicals Outside County flats. If the Commission were to  
21 determine that his cost pool adjustment were appropriate, it would affect the cost  
22 studies for all shapes and classes of mail.<sup>46</sup> As explained above, however, the  
23 Commission has already spoken on this issue. The proposal to modify the 1SUPPF1  
24 cost pool should therefore be rejected.

25 **D. WITNESS STRALBERG'S BUNDLE BREAKAGE COMMENTS**  
26 **SHOULD BE IGNORED**

27 Data related to bundle breakage are very difficult to obtain. The same flats  
28 bundle breakage assumptions have been used in the past three dockets. These data  
29 were obtained from two studies presented in Docket No. R2000-1.<sup>47</sup> While witness

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<sup>45</sup> PRC Op. R2000-1, paragraph [5091] (internal citations omitted).

<sup>46</sup> In the event that such changes are deemed appropriate, it should be noted that other intervenors who might be affected have not been litigating this issue.

<sup>47</sup> See Docket No. R2000-1, USPS-LR-I-88 and USPS-LR-I-297.

1 Stralberg is quite critical of the bundle breakage data and assumptions, he offers little in  
2 the way of alternatives. It is true that a 10-percent bundle breakage factor that is used in  
3 the cost models was derived from a qualitative survey. There are, however, no other  
4 data, empirical or otherwise, that can be used instead. When asked for an empirical  
5 basis for his statement that this factor is "excessive,"<sup>48</sup> witness Stralberg responded, "It  
6 follows that just as there is no empirical basis for fixing it at 10%, there also is no  
7 empirical basis for concluding that 10% is too high or too low."<sup>49</sup>

8 The one modification that witness Stralberg does rely upon concerns a manual  
9 bundle sorting assumption. He assumes that manually sorted bundles cannot break  
10 until after they are sorted into a specific container.<sup>50</sup> In reality, manual bundle sorting  
11 operations can be conducted by more than one person. In such instances, mail is  
12 dumped onto belts, and the employees sort the mail into the appropriate container.  
13 Manually sorted bundles therefore can break before they are sorted into containers.

14 Finally, as with the other changes proposed by witness Stralberg, he has  
15 provided no explanation as to why this modification should only affect Periodicals  
16 Outside County flats. If the Commission were to determine that the bundle breakage  
17 assumptions and factors should be changed, the same assumptions and factors for all  
18 flats cost studies should also be changed.<sup>51</sup> I believe that witness Stralberg's bundle  
19 breakage comments are not helpful in any way and should therefore be ignored.

#### 20 **E. THE DOCKET NO. C2004-1 TESTIMONY IS STILL RELEVANT**

21 In his testimony, witness Stralberg proposes an "extended" flats cost model that  
22 could be used to support rate design proposals similar to the proposals Time Warner, et  
23 al., championed in Docket No. C2004-1. In the instant proceeding, witness Mitchell  
24 (TW-T-1) again presents container, bundle, and piece-specific rates.

25 I was a rebuttal witness in Docket No. C2004-1.<sup>52</sup> One point I made in my  
26 testimony concerned the level to which available cost modeling data allow us to  
27 precisely estimate separate and distinct container, bundle, and piece distribution costs.

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<sup>48</sup> See TW-T-2, page 22, line 19.

<sup>49</sup> See response to USPS/TW-T2-12 (Tr. 31/10590).

<sup>50</sup> See TW-T-2, page 21, lines 3 to 7.

<sup>51</sup> In the event that such changes are deemed appropriate, it should be noted that intervenors who might be affected have not been litigating this issue.

1 As was the case then, I believe that the data allow us to effectively de-average a CRA  
2 cost by shape estimate into rate category estimates using the hybrid cost methodology I  
3 describe in my USPS-T-20 testimony. I do not believe, however, that these data can be  
4 used to precisely estimate separate and distinct container, bundle, and piece  
5 distribution costs. In fact, I would contend that several of witness Stralberg's comments  
6 and actions, as described above, serve to underscore this point.

7 It is my understanding that the Presiding Officer has allowed my rebuttal  
8 testimony in Docket No. C2004-1 to be entered into the record of this proceeding in its  
9 entirety, subject to affirmation of its continued applicability.<sup>53</sup> Because of this, I will  
10 simply state that the issues I raised in Docket No. C2004-1 are still applicable and  
11 accurate today, rather than rehashing the points discussed in that testimony.

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<sup>52</sup> See Docket No. C2004-1, USPS-RT-1.

<sup>53</sup> See Presiding Officer's Ruling No. R2006-1/75, at 8.

1 **III. THE PARCEL POST COST MODEL SHOULD NOT BE USED TO JUSTIFY**  
2 **LOWER PASSTHROUGH VALUES**

3 Witness Luciani (UPS-T-2) proposes that the passthroughs for the estimated  
4 Parcel Post cost avoidances be decreased from 100 percent to 90 percent, based in  
5 part on what he perceives to be defects in the Postal Service's cost model.<sup>54</sup> He feels  
6 the cost model has not improved, but has gotten worse.<sup>55</sup> In reality, the cost model has  
7 been modified in each of the past two cases to reflect operation changes.<sup>56</sup> In addition,  
8 updated test year cost model inputs that were developed by other witnesses were, as  
9 always, incorporated into the cost model.

10 Witness Luciani makes three primary claims: the cost model data are old or  
11 include unsupported assumptions, the CRA adjustment factor is unstable, and the  
12 Delivery Unit (DU) parcel sorting cost estimate is not accurate. Rather than sponsoring  
13 an alternative cost model of his own, he lists unhelpful criticisms in the hope that the  
14 Commission will use them as justification for reducing Parcel Post cost avoidance  
15 passthroughs. The reason witness Luciani provided no alternative cost model is simple:  
16 he could not do so because there are no better data with which to develop an  
17 alternative cost model.

18 In fact, as confirmed by witness Luciani, any cost model could generate one of  
19 three results: (1) an overstated savings estimate, (2) an accurate savings estimate, (3)  
20 or an understated savings estimate.<sup>57</sup> To the extent that any model is viewed to contain  
21 errors, it does not necessarily follow that passthroughs should be reduced to  
22 compensate for those errors. It is possible that some cost avoidance estimates could be  
23 understated as well. The Parcel Post cost model should therefore not be used to justify  
24 lower cost avoidance passthrough values. I urge the Commission to disregard witness  
25 Luciani's comments regarding the cost model when developing its Parcel Post rate  
26 design.

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<sup>54</sup> See UPS-T-2, page 3, lines 1 to 6.

<sup>55</sup> See UPS-T-2, page 7, lines 6 to 9.

<sup>56</sup> See Docket No. R2006-1, USPS-T-21, Section III.B, and Docket No. R2005-1, USPS-T-20, Section III.B.

<sup>57</sup> See response to USPS/UPS-T2-9 (Tr. 27/9434).

1           **A. THE AGE OF A STUDY DOES NOT NECESSARILY MEAN THE RESULTS**  
2           **ARE INVALID**

3           In his testimony, witness Luciani states, "The underlying data sources used in the  
4 Parcel Post cost model are often dated."<sup>58</sup> He then proceeds to list several cost model  
5 inputs that he feels are problematic in that regard.<sup>59</sup> Witness Luciani confirms, however,  
6 that he has conducted no studies of his own which invalidate any of the cost model  
7 inputs.<sup>60</sup> Furthermore, he also confirms that the age of a study does not necessarily  
8 invalidate the results.<sup>61</sup> Recognizing this, I do not believe that one can credibly  
9 challenge the adequacy of the model without closely examining the supposedly  
10 "outdated" inputs, and determining whether they are still valid or, if they may have  
11 changed somewhat, whether any such changes would materially affect the cost model  
12 results. Witness Luciani did not, however, perform such an evaluation. I perform such  
13 an evaluation below.

14           **Pieces Per Container:** The number of pieces per container at DUs is a concern  
15 to witness Luciani because as little as one Destination Delivery Unit (DDU) piece can be  
16 entered at a DU.<sup>62</sup> Witness Luciani was unable to provide any insight as to how often  
17 such an unlikely event occurs.<sup>63</sup>

18           The number of pieces per container in the USPS-LR-L-46 cost model are  
19 calculated by applying base year average cubic feet per piece data to results from a  
20 1984 study.<sup>64</sup> The base year average cubic feet per piece estimates for the benchmark  
21 cost models are the same values used for the rate category cost models. To the extent  
22 any of the original 1984 figures have changed over time, it would likely be due to  
23 changes in the cubic volume per piece values. Consequently, updated values would not  
24 significantly affect the cost model results.

25           The impact can be illustrated by revising the figures in USPS-LR-L-46, page 8,  
26 cells C34:C38. If it is assumed that each container can hold 20 percent more parcels

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<sup>58</sup> See UPS-T-2, page 7, lines 11 to 12.

<sup>59</sup> See UPS-T-2, pages 7 to 9.

<sup>60</sup> See response to USPS/UPS-T2-8 (Tr. 27/9433).

<sup>61</sup> See response to USPS/UPS-T2-4 (Tr. 27/9429).

<sup>62</sup> See UPS-T-2, page 7, lines 18 to 19.

<sup>63</sup> See response to USPS/UPS-T2-5 (Tr. 27/9430).

<sup>64</sup> See USPS-LR-L-46, page 8.

1 compared to 1984 (i.e., the values are multiplied by 1.2), the DDU savings estimate  
2 from USPS-LR-L-46 increases from its original value of \$1.058 to \$1.078 (a 1.89-  
3 percent increase). If it is assumed that each container can hold 20 percent less parcels  
4 compared to 1984, the DDU savings estimate decreases from \$1.058 cents to \$1.034  
5 cents (a 2.27-percent decrease). Given the magnitude of Parcel Post unit costs, these  
6 changes do not have a significant impact on the results.

7 **DU Parcel Sorting Productivity:** The USPS-LR-L-46 Parcel Post cost model  
8 relies on a DU parcel sorting productivity obtained from a 1982 study involving Bound  
9 Printed Matter (BPM).<sup>65</sup> Based on that fact alone, witness Luciani appears to draw the  
10 conclusion that this figure is not correct.

11 Witness Luciani correctly describes the methods used to perform this operation,  
12 with the exception that clerks, rather than mail handlers, perform the sortation. He also  
13 acknowledges that the basic operation has not changed since 1982.<sup>66</sup> I observed DU  
14 parcel sorting operations on my second day of employment with the Postal Service in  
15 February 1991 and can confirm that the operations I observed then are identical to  
16 those described by witness Luciani. Furthermore, they are identical to those I observed  
17 in recent field observations at DUs.

18 If the methods used to sort the mail are the same, the only other reason the  
19 productivity value might have changed is if related factors, such as the number of carrier  
20 routes per delivery unit or the types of containers, have changed. Witness Luciani was  
21 unable to demonstrate that any such factors have appreciably changed since 1982.<sup>67</sup>  
22 Given these facts, it is unclear why witness Luciani hypothesizes that the productivity  
23 value is incorrect.

24 **BMC Crossdock Productivity:** The productivity value for moving containers  
25 from the dock to the parcel sorting operation at delivery units has been estimated to be  
26 four times a BMC crossdock productivity value. This crossdock productivity value was  
27 originally developed in a 1996 study. Witness Luciani is concerned about the age of the  
28 data, as well as what he perceives to be the arbitrary nature of the assumption.

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<sup>65</sup> See USPS-LR-L-46, page 4.

<sup>66</sup> See response to USPS/UPS-T2-7 (Tr. 27/9431).

<sup>67</sup> See response to USPS/UPS-T2-15 (Tr. 27/9440-42).

1           While I have continued to use this value in the past two rate cases, I did not  
2 develop the initial assumption and am therefore unsure as to the original basis for using  
3 it beyond the information provided by witness Eggleston in her response to UPS/USPS-  
4 T25-9 in Docket No. R2001-1.<sup>68</sup> I can state, however, based on my experience  
5 developing facility layouts and observing both delivery unit and BMC operations, that  
6 the amount of dock space at an average BMC dwarfs the amount of dock space at an  
7 average delivery unit. Consequently, if dock space square footage were used as the  
8 original basis to revise this figure, and from witness Eggleston's response to  
9 UPS/USPS-T25-9 it appears that this played a role, then this assumption has, to the  
10 extent it is inaccurate, likely resulted in overstated delivery unit costs. This point is moot,  
11 however, because the same assumption is used in all of the Parcel Post cost models  
12 such that it has no effect on the cost avoidance estimates.

13           **Unloading productivities:** Witness Luciani's concern with the unloading  
14 productivities also appears to be focused on the age of the data only. The unloading  
15 productivity values in the USPS-LR-L-46 cost model were developed in a 1996 study.  
16 These values would change if the containers, the unloading methods, or the facilities  
17 were to have changed since 1996. The containers and methods shown in USPS-LR-L-  
18 46 are still used today. Most recent BMC modifications concern sorting equipment. It is  
19 my understanding that some BMC facilities have been expanded since 1996, but the  
20 additional floor space is most often used for staging mail. Consequently, it is unlikely  
21 that there have been significant or material changes to the unloading productivities  
22 since 1996.

23           **Arrival and Dispatch Profiles:** Witness Luciani's concern regarding the arrival  
24 and dispatch profiles appears to be related to the age of the data as well, since he  
25 provides no specific explanation of how the values may have changed. The arrival and  
26 dispatch profile data in USPS-LR-L-46 were also developed in a 1996 study.

27           The impact of any potential changes to these values can be assessed by  
28 observing the data in USPS-LR-L-46, page 9. The arrival profile percentages are used  
29 to estimate loading costs at the SCF and are contained in cells B11:B17. The costs per  
30 operation are shown in cells F11:F17. If the arrival profile were to have changed since

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<sup>68</sup> This R2001-1 interrogatory response can be found in the transcript of this docket at Tr. 3/318-19.

1 1996, it would likely show that less mail is bedloaded and more mail is containerized  
2 upon entry, leading to a decrease in costs. The loose bedloaded mail has a much  
3 higher cost per operation than the other arrival / entry methods. Mail entered in pallets  
4 and pallet boxes have the lowest per operation cost of the methods. The arrival profile  
5 percentages are also used to estimate unloading costs at the BMC, and are contained  
6 in cells B19:B25. The costs per operation are shown in cells F19:F25. If less mail were  
7 to be bedloaded and more mail were to be entered in rolling stock, the costs would  
8 again decrease.

9 When the dispatch profile data are considered, however, it appears that any  
10 change to the arrival and dispatch profiles would, at the very least, be offsetting. The  
11 dispatch profile percentages from USPS-LR-L-46, page 9 are contained in cells  
12 B39:B43. The costs per operation are shown in cells F39:F43. In this instance, the costs  
13 associated with bedloading sacks are lower than those associated with loading Over  
14 The Road (OTR) containers and other rolling stock. If the Postal Service were to have  
15 relied less on bedloading and more on rolling stock over time, the loading costs would  
16 have increased to some extent. Overall, the inclusion of revised arrival and dispatch  
17 profile data would have resulted in a situation where some costs decrease while other  
18 costs increase.

19 **Direct Transportation to DU:** The USPS-LR-L-46 cost model relies on an  
20 estimate that 12.3 percent of parcels are dispatched directly to the DU from the BMC.<sup>69</sup>  
21 This estimate was developed in 1998. Witness Luciani is concerned that it is no longer  
22 valid. As he indicated throughout his testimony, the percentage of Parcel Post  
23 comprised of DDU parcels has increased a great deal over the last several years. With  
24 this change in mail mix, it is likely that the percentage of mail transported directly to DUs  
25 from BMCs has decreased. If the 12.3-percent estimate is reduced in the cost model,  
26 the end result is that some cost avoidances, like those related to DDU parcels, would  
27 increase.

28 **Other Inputs:** Witness Luciani is also concerned about various other cost model  
29 inputs. He specifically cites the percentage of mail sorted to 5-digits by the Primary  
30 Parcel Sorting Machine (PPSM), the percent of mail fed directly to the Secondary Parcel

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<sup>69</sup> See USPS-LR-L-46, page 6.

1   Sorting Machine (SPSM), and the percentage of nonmachinable mail pieces inducted  
2   on conveyor systems. All three values were based on data collected in 1998.

3           The cost model currently relies on an estimate that 20.1 percent of the parcels  
4   processed on the PPSM are sorted to the 5-digit level.<sup>70</sup> The amount of mail sorted to 5-  
5   digits on PPSMs would be affected by the number of ZIP Codes and the number of  
6   separations that are possible on PPSMs. It is my understanding that the number of ZIP  
7   Codes and therefore the number of separations performed at BMCs have not changed  
8   appreciably since 1998. Assuming that this percentage had actually increased to 30  
9   percent and the cost model input were changed accordingly, the InterBMC machinable  
10  mail processing unit cost estimate would change from \$ 2.541 to \$2.545 (a 0.16-percent  
11  increase) and the IntraBMC machinable mail processing unit cost estimate would  
12  change from \$2.230 to \$ 2.222 (a 0.36-percent decrease). Given the magnitude of the  
13  parcels cost estimates, the cost model does not appear to be appreciably sensitive to  
14  this input value.

15           The cost model currently relies on an estimate that 20.8 percent of parcels are  
16  inducted directly to the SPSM.<sup>71</sup> If this percentage were to have changed in any way  
17  since 1998, it would likely have increased.<sup>72</sup> If the 20.8 percent value is increased to 30  
18  percent, the InterBMC machinable mail processing unit cost estimate changes from  
19  \$2.541 to \$ 2.544 (a 0.12-percent increase) and the IntraBMC machinable mail  
20  processing unit cost estimate changes from \$ 2.230 to \$2.228 (a 0.09-percent  
21  decrease). Given the magnitude of the parcels cost estimates, the cost model also does  
22  not appear to be appreciably sensitive to the input value.

23           The cost model currently relies on an estimate that 41.2 percent of parcels are  
24  inducted using a conveyor system.<sup>73</sup> If it were determined that this value were actually  
25  30 percent and the input value were changed accordingly, the InterBMC NMO mail  
26  processing unit cost estimate would change from \$ 6.390 to \$ 6.354 (a 0.56-percent  
27  decrease) and the IntraBMC NMO mail processing unit cost estimate would change  
28  from \$ 5.066 to \$ 5.047 (a 0.38-percent decrease). If it were determined that this value

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<sup>70</sup> See USPS-LR-L-46, page 6.

<sup>71</sup> See USPS-LR-L-46, page 6.

<sup>72</sup> It is my understanding that more mailers are preparing their parcels so that they can be inducted directly into the secondary operation because they believe it has improved their service.

1 were actually 50 percent and the input value were changed accordingly, the InterBMC  
 2 NMO mail processing unit cost estimate would change from \$6.390 to \$ 6.418 (a 0.44-  
 3 percent increase) and the IntraBMC NMO mail processing unit cost estimate would  
 4 change from \$ 5.066 to \$ 5.081 (0.30-percent increase). Given the magnitude of the  
 5 parcels cost estimates, the cost model does not appear to be appreciably sensitive to  
 6 the input value.

7 **Parcel Keying Productivity:** Finally, witness Luciani is concerned about data  
 8 related to PSM keying operations. By definition, these data are fairly old because parcel  
 9 keying activities are often not required now, given that many parcels are prebarcoded.  
 10 Productivity data from the 1990s are therefore relied upon in the cost study that is used  
 11 as the basis for the parcel barcode discount.<sup>74</sup> In order to evaluate the accuracy level of  
 12 the keying task estimate, I have estimated the additional tasks required to key a parcel  
 13 using a Methods Time Measurement (MTM-4M) analysis, as shown below:

<u>Task</u>	<u>Measurement Units (MUs)</u>
Regrasp parcel	56
Turn parcel to read	89
Read Parcel	146
Key parcel using 5 keystrokes	<u>100</u>
Total Normal Time	391
Standard Time (15% PFD)	450

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 25 With Personal, Fatigue and Delay allowances of 15 percent, the standard time  
 26 estimate for keying a parcel to 5 digits is 450 MUs. A measurement unit is equal to  
 27 0.000001 hours. The parcel keying estimate is therefore equal to 0.00045 hours per  
 28 piece. The inverse of this number is the productivity estimate, which is 2,223.952 pieces  
 29 per hour. Given that the volume variability factor for the PSM operation is 0.85, the  
 30 marginal productivity value is calculated to be 2,616.414 pieces per hour (the actual  
 31 productivity divided by the volume variability factor). When the premium pay adjusted  
 32 test year wage rate of \$37.992 is divided by the marginal productivity value, the direct

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<sup>73</sup> See USPS-LR-L-46, page 6.

<sup>74</sup> The input values are contained in USPS-LR-L-46, page 4. The cost study is contained in USPS-LR-L-46, page 33.

1 cost per piece is calculated to be \$0.015. The total direct and indirect cost per piece  
2 value can be obtained by multiplying this figure by the PSM piggyback factor of 1.756.  
3 The result from this analysis is therefore a test year cost estimate of \$0.025 per piece.  
4 This figure is not significantly different than the \$0.027 estimate in USPS-LR-L-46.  
5

6 In summary, witness Luciani criticizes the cost model input data, but has not  
7 provided any evidence demonstrating that any of the figures are incorrect. He has also  
8 confirmed that the age of the data do not necessarily mean that they are invalid.  
9 Furthermore, as I have demonstrated above, if any of the data inputs have changed,  
10 they likely have (1) changed in a way that does not justify the use of less-than-100-  
11 percent passthroughs, or (2) changed in a manner that would not significantly impact  
12 the cost avoidance estimates. Consequently, witness Luciani's criticisms should not be  
13 used as a basis for reducing the cost avoidance estimate passthroughs for Parcel Post.

14 **B. CRA ADJUSTMENT FACTORS CANNOT NECESSARILY BE USED TO**  
15 **ASSESS COST MODEL VALIDITY**

16 In his testimony, witness Luciani states that the CRA proportional adjustment  
17 factor "suggests that something is wrong with the Postal Service's Parcel Post mail  
18 processing cost model."<sup>75</sup> In reality, CRA proportional adjustment factors are not very  
19 effective when used as a tool to gauge model accuracy and reliability. Witness Luciani's  
20 comments concerning CRA adjustment factors should therefore not be used as a basis  
21 for decreasing the Parcel Post cost avoidance passthroughs.

22 In Table 2 of his testimony witness Luciani lists the proportional adjustment  
23 factors that have been used in past rate cases, beginning with Docket No. R97-1. It is  
24 unclear what purpose Table 2 serves. The methodologies used to develop the CRA  
25 costs by shape estimates and the methodologies used to develop the Parcel Post cost  
26 models have both changed over time. One would therefore not expect CRA proportional  
27 adjustment factors to remain static over time.

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<sup>75</sup> See UPS-T-2, page 9, lines 13 to 16.

1           In Witness Luciani's view, the current factor of 1.194 "inflate[s]" the model cost  
2 estimates and "suffers from severe instability."<sup>76</sup> It appears that this claim is being made  
3 as a result of revised cost models being filed in this docket.<sup>77</sup> While I personally do not  
4 enjoy making errors, cost model errata are going to have to be filed on occasion,  
5 whether it is a result of something I have done or it is related to another witness' work  
6 upon which I rely. Errors are often pointed out by the Commission, or other intervening  
7 parties like United Parcel Service (UPS). In the instant proceeding, UPS has pointed out  
8 some problems with data. In that regard, I appreciate their contributions. To the extent  
9 there are errors in anyone's work, I view this circumstance as a necessary part of the  
10 process that results in the Commission having the best data with which to work before  
11 issuing their Opinion and Recommended Decision. Changes to CRA proportional  
12 adjustment factors as a result of errata being filed, however, are not necessarily a sign  
13 of "instability."

14           As witness Luciani has confirmed, CRA adjustment factors have been relied  
15 upon by rate case participants, including the Commission, for several years.<sup>78</sup> Witness  
16 Luciani also confirms that the models are simplified representations of reality and that  
17 some cost pools may contain costs which are not actually included in the cost models.<sup>79</sup>  
18 An example of a task that would be represented in the proportional cost pool cost  
19 estimates, but not in the model cost estimates, is the additional processing costs  
20 required to process barcoded mail pieces that are rejected by PSMs. When mail pieces  
21 are rejected, mail processing clerks can manually print and apply a label with a correct  
22 barcode on the mail piece and then re-induct the mail piece into the PSM system. This  
23 task is not currently included in the cost models, but is imbedded in the BMC cost pools,  
24 which are all classified as proportional in USPS-LR-L-46.

25           Due to the fact that the tasks being modeled and the tasks represented by the  
26 proportional cost pools do not always exactly correspond to each other, it would be  
27 meaningless to aim for a cost model which results in a CRA proportional adjustment  
28 factor of 1.000. In fact, it is unclear what an acceptable range would be. Despite

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<sup>76</sup> See UPS-T-2, page 10, lines 6 to 8.

<sup>77</sup> See UPS-T-2, page 11, lines 12 to 15.

<sup>78</sup> See response to USPS/UPS-T2-10(c) (Tr. 27/9435).

<sup>79</sup> See response to USPS/UPS-T2-11 (Tr. 27/9436) and USPS/UPS-T2-16 (Tr. 27/9443).

1 witness Luciani's complaint that the factors are not stable, he was unwilling to provide  
2 an acceptable range of accuracy.<sup>80</sup> In this instance, witness Luciani's comments are  
3 again unavailing and should not be used as justification for reducing the passthroughs  
4 for the Parcel Post cost avoidance estimates.

### 5 **C. SELECTIVE COST POOL ADJUSTMENTS SHOULD NOT BE INCLUDED**

6 Although he did not provide his own version of the cost model, witness Luciani  
7 did recommend that one modification be made to the cost model. This modification  
8 concerns the parcel sorting operation at DUs. As described above, the productivity  
9 estimate for that operation was developed in a 1982 study. The parcel sorting methods  
10 have not changed since that time. The cost pool to which the parcel sorting operation at  
11 DUs should be mapped is the non-MODS "MANP" cost pool. The test year value of that  
12 cost pool is 26.029 cents. The model cost estimate for this task is 10.745 cents. Witness  
13 Luciani believes that the current modeling method skews the results and inflates the  
14 DDU cost avoidance estimate.<sup>81</sup> To solve this problem, he recommends that 24 cents  
15 be used as the model cost estimate for the parcel sorting operation at DUs. The basis  
16 for this estimate is a tally analysis indicating that 92.3 percent of the cost pool value  
17 represents incoming costs.<sup>82</sup>

18 Theoretically, the basis that witness Luciani has used for his analysis could be  
19 applied to every single cost pool. If such an analysis were to be performed, it is likely  
20 that some adjustments would increase the DDU cost avoidance while others would  
21 decrease the DDU cost avoidance. As witness Luciani confirms, there are several tasks  
22 in the fixed cost pools that would not be incurred at all by DDU.<sup>83</sup> For example, some of  
23 the fixed mail processing costs incurred at MODS plants would not be incurred by DDU.  
24 Using witness Luciani's approach, these cost pool values should be set to 0.000 for  
25 DDU mail pieces, which would expand the cost avoidance estimates. Currently, these  
26 cost pools are classified as fixed for both DDU and non-DDU mail and therefore do not  
27 contribute to the cost avoidance estimates.

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<sup>80</sup> See response to USPS/UPS-T2-12 (Tr. 27/9437).

<sup>81</sup> See UPS-T-2, pages 13 to 15.

<sup>82</sup> See USPS-LR-L-144.

<sup>83</sup> See response to USPS/UPS-T2-17(a) (Tr. 27/9444).

1           Witness Luciani proposes that his modification be included until more is known  
2 about why this cost discrepancy has occurred.<sup>84</sup> I believe that, in order to be fair and  
3 avoid a biased model, this modification should not be implemented unless each cost  
4 pool is assessed in a similar manner. I therefore recommend that the Commission  
5 disregard witness Luciani's proposed modification when developing the Parcel Post rate  
6 design.

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<sup>84</sup> See UPS-T-2, page 14, lines 13 to 17.

## ATTACHMENT 1: INCREMENTAL IMPACT OF WITNESS GLICK'S COST MODEL CHANGES

### ACTUAL MAIL PROCESSING UNIT COST ESTIMATES (CENTS)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Rate Category</u>	<u>USPS-LR-L-43</u>	<u>Cost By Shape Modification</u>	<u>1FLATPRP Cost Pool Modification</u>	<u>ALLIED Cost Pool Modification</u>	<u>Cost Pool Classification Modification</u>	<u>1SUPP_F1 Cost Pool Modification</u>	<u>Man Inc Sec Coverage Factor Modification</u>
Basic Nonauto	29.605	30.677	31.134	32.057	32.967	33.604	32.355
3-Digit Nonauto	22.157	22.981	23.438	23.929	24.413	24.763	24.269
5-Digit Nonauto	14.161	14.719	15.176	15.204	15.230	15.273	15.725
Carrier Route Nonauto	9.835	10.248	9.753	9.530	9.309	9.134	8.947
Basic Auto	25.212	26.137	26.595	27.263	27.922	28.389	27.580
3-Digit Auto	21.078	21.866	22.323	22.751	23.174	23.482	23.146
5-Digit Auto	14.314	14.876	15.334	15.370	15.405	15.454	16.012
<b>Benchmark:</b>							
5-Digit Nonauto	4.326	4.471	5.423	5.674	5.921	6.139	6.778
5-Digit Auto	4.479	4.628	5.581	5.840	6.096	6.320	7.065

### PRESORT ADJUSTED MAIL PROCESSING UNIT COST ESTIMATES (CENTS)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Rate Category</u>	<u>USPS-LR-L-43</u>	<u>Cost By Shape Modification</u>	<u>1FLATPRP Cost Pool Modification</u>	<u>ALLIED Cost Pool Modification</u>	<u>Cost Pool Classification Modification</u>	<u>1SUPP_F1 Cost Pool Modification</u>	<u>Man Inc Sec Coverage Factor Modification</u>
Basic Nonauto	29.605	30.677	31.134	32.057	32.967	33.604	32.355
3-Digit Nonauto	22.157	22.981	23.438	23.929	24.413	24.763	24.269
5-Digit Nonauto	14.161	14.719	15.176	15.204	15.230	15.273	15.725
Carrier Route Nonauto	9.835	10.248	9.753	9.530	9.309	9.134	8.947
Basic Auto	28.321	29.350	29.807	30.655	31.493	32.079	30.987
3-Digit Auto	20.936	21.719	22.177	22.597	23.011	23.314	22.959
5-Digit Auto	13.860	14.407	14.865	14.874	14.884	14.915	15.460
<b>Benchmark:</b>							
5-Digit Nonauto	4.326	4.471	5.423	5.674	5.921	6.139	6.778
5-Digit Auto	4.025	4.159	5.112	5.344	5.575	5.781	6.513

(1) USPS-LR-L-43

(2) Values based on witness Glick's cost by shape modification

(3) Values based on witness Glick's 1FLATPRP cost pool modification

(4) Values based on witness Glick's ALLIED cost pool modification

(5) Values based on witness Glick's cost pool classification changes

(6) Values based on witness Glick's 1SUPP\_F1 cost pool modification

(7) MPA/ANM-LR-2

## ATTACHMENT 2: FY 2005 FLATS MAIL VOLUMES AND ESTIMATED INCOMING SECONDARY FINALIZATION RATES

<b>A. <u>Flats Category</u></b>	<b><u>FY 2005 RPW Pieces</u></b>		<b><u>Source</u></b>
First-Class Mail single-piece	3,572,195,284	15.12%	USPS-LR-L-87
First-Class Mail presort	909,625,881	3.85%	USPS-LR-L-32
Periodicals Outside County (Non-CR)	4,265,346,527	18.05%	USPS-LR-L-91
Periodicals Outside County (CR)	376,064,469	1.59%	USPS-LR-L-91 ( * 0.0954)
Periodicals Inside County (Non-CR)	180,028,444	0.76%	USPS-LR-L-87
Standard Mail Regular (Non-ECR)	14,025,889,177	59.35%	USPS-LR-L-92
Parcel Post	3,157,972	0.01%	USPS-LR-L-87
Bound Printed Matter	269,142,744	1.14%	USPS-LR-L-87
Media Mail / Library Mail	30,579,077	0.13%	USPS-LR-L-87
<b>Total</b>	<b>23,632,029,575</b>	<b>100.00%</b>	

  

<b>B. <u>Finalization Rate (Original)</u></b>	<b><u>FY 2005 Estimated Pieces</u></b>	<b><u>Percent</u></b>	<b><u>Source</u></b>
AFSM100	15,275,731,000	51.78%	MODS/EOR
UFSM1000	1,037,685,000	3.52%	MODS/EOR
Manual	13,188,243,000	44.70%	FLASH
<b>Total</b>	<b>29,501,659,000</b>	<b>100.00%</b>	

  

<b>C. <u>Finalization Rate (Adjusted)</u></b>	<b><u>FY 2005 Estimated Pieces</u></b>	<b><u>Percent</u></b>	<b><u>Source</u></b>
AFSM100	15,275,731,000	64.64%	MODS/EOR
UFSM1000	1,037,685,000	4.39%	MODS/EOR
Manual	7,318,613,575	30.97%	ADJUSTED VALUE
<b>Total</b>	<b>23,632,029,575</b>	<b>100.00%</b>	

  

<b>D. <u>Finalization Rate (Adjusted - No PP &amp; MM/LM)</u></b>	<b><u>FY 2005 Estimated Pieces</u></b>	<b><u>Percent</u></b>	<b><u>Source</u></b>
AFSM100	15,275,731,000	64.73%	MODS/EOR
UFSM1000	1,037,685,000	4.40%	MODS/EOR
Manual	7,284,876,526	30.87%	ADJUSTED VALUE
<b>Total</b>	<b>23,598,292,526</b>	<b>100.00%</b>	

## ATTACHMENT 3: USPS-LR-L-43 FLATS COST MODEL DATA COMPARISONS

Class	Flats Rate Category	BY 2005 RPW Volume	Class Percent	Non-CR Flats Percent	AFSM100 Compatible Percent	Incoming Secondary Percent Finalized			
						AFSM100	UFSM1000	Manual	Total
FCM	Nonauto	176,370,081	19.39%	0.92%	56.12%	41.25%	32.76%	25.99%	100.00%
	MADC Auto	42,965,539	4.72%	0.22%	86.20%	58.62%	17.52%	23.87%	100.00%
	ADC Auto	102,738,851	11.29%	0.54%	91.05%	65.36%	14.95%	19.69%	100.00%
	3D Auto	258,821,076	28.45%	1.35%	88.08%	68.47%	15.69%	15.84%	100.00%
	5D Auto	328,730,334	36.14%	1.71%	97.54%	82.96%	7.83%	9.21%	100.00%
	<b>Class Total / Aggregate</b>	<b>909,625,881</b>	<b>100.00%</b>		<b>85.55%</b>	<b>67.61%</b>	<b>16.16%</b>	<b>16.23%</b>	<b>100.00%</b>
PERIODICALS	Basic Nonauto	168,214,698	3.94%	0.88%	79.85%	50.16%	19.99%	29.86%	100.00%
	3D Nonauto	172,270,322	4.04%	0.90%	64.93%	41.64%	26.94%	31.42%	100.00%
	5D Nonauto	223,586,748	5.24%	1.16%	62.14%	49.27%	32.59%	18.13%	100.00%
	Basic Auto	151,367,760	3.55%	0.79%	82.39%	49.79%	18.41%	31.80%	100.00%
	3D Auto	1,038,021,663	24.34%	5.41%	81.19%	51.56%	19.60%	28.84%	100.00%
	<b>Class Total / Aggregate</b>	<b>4,265,346,527</b>	<b>100.00%</b>		<b>80.77%</b>	<b>59.65%</b>	<b>19.46%</b>	<b>20.89%</b>	<b>100.00%</b>
STANDARD	MADC Nonauto	215,020,175	1.53%	1.12%	94.75%	60.27%	14.12%	25.62%	100.00%
	ADC Nonauto	141,457,414	1.01%	0.74%	88.16%	60.50%	16.35%	23.15%	100.00%
	3D Nonauto	421,057,344	3.00%	2.19%	81.93%	58.76%	19.57%	21.66%	100.00%
	5D Nonauto	358,931,019	2.56%	1.87%	79.86%	65.83%	20.76%	13.41%	100.00%
	MADC Auto	85,590,082	0.61%	0.45%	92.14%	55.44%	15.69%	28.87%	100.00%
	<b>Class Total / Aggregate</b>	<b>14,025,889,177</b>	<b>100.00%</b>		<b>95.67%</b>	<b>73.86%</b>	<b>10.95%</b>	<b>15.19%</b>	<b>100.00%</b>
	<b>Flats Total / Aggregate</b>	<b>19,200,861,585</b>		<b>100.00%</b>	<b>91.88%</b>	<b>70.41%</b>	<b>13.09%</b>	<b>16.50%</b>	<b>100.00%</b>
	<b>Modified FY 2005 Incoming Secondary Data (Attachment 2)</b>					<b>64.73%</b>	<b>4.40%</b>	<b>30.87%</b>	<b>100.00%</b>
MPA/ANM-LR-2	Basic Nonauto	168,214,698	3.94%	0.88%	79.85%	40.12%	15.99%	43.89%	100.00%
	3D Nonauto	172,270,322	4.04%	0.90%	64.93%	33.31%	21.55%	45.14%	100.00%
	5D Nonauto	223,586,748	5.24%	1.16%	62.14%	39.42%	26.07%	34.51%	100.00%
	Basic Auto	151,367,760	3.55%	0.79%	82.39%	39.83%	14.73%	45.44%	100.00%
	3D Auto	1,038,021,663	24.34%	5.41%	81.19%	41.25%	15.68%	43.07%	100.00%
	<b>Class Total / Aggregate</b>	<b>4,265,346,527</b>	<b>100.00%</b>		<b>80.77%</b>	<b>47.72%</b>	<b>15.56%</b>	<b>36.71%</b>	<b>100.00%</b>
TW-LR-2	Basic Nonauto	168,214,698	3.94%	0.88%	79.85%	41.81%	11.83%	46.35%	100.00%
	3D Nonauto	172,270,322	4.04%	0.90%	64.93%	35.39%	15.46%	49.15%	100.00%
	5D Nonauto	223,586,748	5.24%	1.16%	62.14%	41.88%	2.99%	55.13%	100.00%
	Basic Auto	151,367,760	3.55%	0.79%	82.39%	42.32%	14.69%	42.99%	100.00%
	3D Auto	1,038,021,663	24.34%	5.41%	81.19%	43.83%	15.64%	40.53%	100.00%
	<b>Class Total / Aggregate</b>	<b>4,265,346,527</b>	<b>100.00%</b>		<b>80.77%</b>	<b>50.67%</b>	<b>8.68%</b>	<b>40.65%</b>	<b>100.00%</b>