DOCKET SECTION

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

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

DIRECT TESTIMONY
OF
HALSTEIN STRALBERG

ON BEHALF OF
TIME WARNER INC.

CONCERNING
DISTRIBUTION OF CLERK AND MAILHANDLER COSTS

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1 AUTOBIOGRAPHICAL SKETCH

2 My name is Halstein Stralberg. I am the manager of the Operations Research Division at
3 Universal Analytics, Inc. (UAI), a management consulting firm in Torrance, California.

4 My academic background is in mathematics, with a master's degree from the University of Oslo,
5 Norway in 1963. I received a bachelor's degree in mathematics, physics and astronomy at the
6 University of Oslo in 1961. Most of my professional experience is in the area of management
7 science and operations research. I have directed and performed over 20 years of postal related
8 studies as well as a number of management studies for other clients in government and private
9 industry, in such diverse fields as production scheduling and control, corporate planning and
10 finance, investment analysis, design and optimization of transportation systems, health care and
11 computer system design.

12 I have previously presented a total of 15 pieces of testimony before this Commission on a variety
13 of postal costing and rate design issues. Two were rebuttal testimonies on behalf of the Postal
14 Service in Docket R80-1. I presented four testimonies on behalf of Time Inc. in R87-1, four on
15 behalf of Time Warner Inc. in R90-1, one in MC91-3 two in R94-1 and two in MC95-1.

16 Since 1987 I have directed UAI's activities in support of Time Warner's participation in postal
17 rate cases. Besides the presentation of testimony, I have advised Time Warner on a variety of
18 postal issues and directed the development of computer models for analysis of postal costs and
19 rate design. One of these models is the Universal Mail Flow Model (TW-LR-6), which I used to
20 estimate second-class presort and palletization savings in my R90-1 testimony.

21 From 1973 until 1987, I directed UAI's efforts under several contracts with the U.S. Postal
22 Service. Some of my major activities on these contracts included:

23 • Design and development of the Mail Processing Cost Model (MPCM), a weekly staffing
24 and scheduling computer program for postal facilities, with an annualized extension
25 (AMPCM) that uses linear programming to fit long term staffing planning in a postal
26 facility to seasonal variations in volume and personnel absentee/attrition rates.

27 • An extensive data collection in 18 postal facilities designed to: (1) establish a Postal
28 Service data base on mail arrival rates and mail attributes affecting costs (subclass,
29 shape, indicia, presort, container method, etc.), and (2) develop the model input data
30 needed to apply MPCM for each facility.

31 • The "Study of Commercial Mailing Programs" --under the Long Range Classification

1   Study Program. This study involved a detailed cost and market evaluation of several
2   rates and classification concepts, including various presort concepts, destinating SCF
3   discounts for second class, plant loading and barcoding of preprinted envelopes.

4   • A BMC cost analysis which resulted in the establishment of the Inter/Intra-BMC parcel
5   post rate differential in R80-1.

6   • Numerous simulation studies requested by postal management using the MPCM.

7 My two rebuttal testimonies on behalf of the Postal Service in R80-1 addressed the Intra/Inter

8 BMC cost analysis and Dr. Merewitz's use of MPCM to analyze peak load costs.

9 I have conducted a number of classes and seminars on the use of MPCM both for Postal Service

10 employees and interested outside parties. I have made extensive visits to more than 30 USPS

11 mail processing facilities, including multiple repeat visits to some of them, the last in September,

12 1996. On these visits I observed all aspects of mail processing operations on all tours, as well as

13 methods of mail collection, acceptance and transportation. I estimate that in total I have spent

14 more than 2000 hours on site in these facilities. I have also observed various ongoing postal data

15 collection systems.

16 Besides my postal activities, I directed a study for the department of Health and Human Services

17 of the impact of alternative regulatory policies used by state Medicaid agencies. This study

18 included an extensive data gathering effort and multiple regression analysis to determine factors

19 influencing utilization and cost in the Medicaid program.

20 Before joining UAI I was an Operations Research Analyst at the Service Bureau Corporation

21 (IBM), where I performed several large-scale simulation studies. These included an analysis

22 during the design stage of the Dallas/Fort Worth Airport's people mover system and simulations

23 to improve design and response time in large interactive computer systems.

24 I was an Operations Research Analyst at Norsk Hydro, a Norwegian petrochemical company,

25 where my work included design, development and implementation of factory production

26 scheduling systems, studies of transportation and distribution systems and risk analysis of

27 investment decisions.

28 For three years I was an assistant Professor of Mathematics at the University of Oslo, Norway.

I. PURPOSE OF TESTIMONY

In this testimony I comment on the Postal Service's proposed method for distributing Segment 3 costs among subclasses and special services. I identify a number of unstated, unverified and in some cases clearly erroneous assumptions that underlie witness Degen's distribution of mail processing costs based on a combination of MODS and IOCS data.

Besides identifying various problems with Degen's method, I offer an alternative approach that, while not fully satisfactory since the available data are wanting in many respects, relies on fewer untested assumptions, is closer to the approach traditionally used by the Commission, and makes use of much information that Degen has chosen to ignore.

II. SUMMARY

In this docket the Postal Service has introduced two major changes in the treatment of cost segment 3, consisting of clerk and mailhandler wage costs:

(1) USPS witness Bradley challenges the long held but untested assumption of 100% variability in most mail processing costs and presents econometric estimates of the volume variabilities for various mail processing operations.

(2) USPS witness Degen presents a method of distributing volume variable clerk and mailhandler wage costs that differs significantly from the traditional method.

I recommend that the Commission accept Bradley's estimates of volume variability in mail processing as the most accurate available. While I have not analyzed the technical merit of the details in Bradley's econometric method, I firmly believe that he at least is correct in his main conclusion, i.e., that mail processing costs are substantially less than 100% volume variable. Besides being intuitively obvious, this is confirmed by the considerable slack time in mail processing evidenced by the large and fast growing pool of break time and other general overhead "not handling" costs identified in IOCS.

On the other hand, I have identified many severe problems with Degen's proposed method for distributing mail processing and other segment 3 costs to subclasses and

1 special services, particularly his distribution of mixed mail and not handling costs.
2 Degen, despite claims to the contrary, has not addressed the many complaints about
3 bias in the IOCS raised by Periodicals and other mailers since Docket No. R90-1.
4 Instead, he presents a method that is worse than the traditional IOCS method and
5 requires reliance on numerous unstated, untested and sometimes demonstrably wrong
6 assumptions, while ignoring much useful information recorded by IOCS clerks about
7 the activities that clerks and mailhandlers engage in.

8 By insisting on distributing all mixed mail and not handling costs within a large
9 number of cost pools, Degen ignores all cross-pool cost relationships and introduces
10 significant distortions. His mixed mail method is basically the same method that both
11 the Commission and the Postal Service concluded should not be used in Docket R94-1.
12 Degen's extension of this elaborate but conceptually flawed approach by applying it
13 individually within a large number of MODS cost pools makes it worse, not better. He
14 introduces even more untested and erroneous assumptions by extending this already
15 flawed approach to empty items and containers, which, according to the IOCS data,
16 cost almost as much to handle when empty as when they contain mail.

17 "Not Handling" costs today represent over 42% of all accrued mail processing costs.
18 Degen does not address the reasons why these costs have increased so much, and his
19 approach ignores all distinctions between the 63 different types of not handling activity
20 or inactivity that IOCS clerks observed clerks and mailhandlers engaged in. By
21 distributing them strictly within the cost pools that observed employees happened to be
22 clocked into, Degen assigns an excessive portion of these costs to the highly presorted
23 and least automated mail, which receives a major portion of its handling at platforms
24 and opening units. Those are operations where productivity is not monitored and
25 where employees often are sent when there are no assignments for them elsewhere,
26 leading to very high proportions of not handling being recorded at those operations in
27 the IOCS.

28 The evidence Degen presents to link mixed mail and not handling costs to specific
29 subclasses and special services is so weak that I recommend the Commission consider
30 treating, at least in this docket, even some volume variable costs as institutional. In

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1   particular, I have identified $2,733 million in volume variable ($3,727 million accrued)
2   not handling costs, referred to in the following as general overhead costs, that showed a
3   highly anomalous growth during the past ten years when the automation program was
4   being implemented. Apart from the historical connection with the automation
5   program, little is known about the true causes of these sharply increased costs. The
6   Postal Service apparently has still not seriously analyzed these cost increases. I
7   recommend that the Commission treat at least some of these costs as institutional, until
8   the Postal Service produces firm evidence linking them to specific subclasses and
9   services.

10   Additionally, I propose an alternative method of distributing mail processing and other
11   segment 3 costs that I urge the Commission to apply to those volume variable costs that
12   it decides should be attributed. My method uses the same IOCS data, the same accrued
13   costs and the same volume variability factors that Degen uses, and it attributes the same
14   proportion of total segment 3 costs. However, it differs from Degen's method in many
15   important respects. Specifically, I propose that:

16   • Mixed mail and not handling costs that are related to specific shape categories
17   should be distributed based on the direct subclass costs for the corresponding
18   shapes. The distribution should be performed within facility type (MODS,
19   BMC and NonMODS), CAG and basic function, but not within MODS cost
20   pools.

21   • All other mixed mail costs should be distributed based on all direct subclass
22   costs, again within facility type, CAG and basic function.

23   • Window service and administration/support related not handling costs that
24   Degen misclassifies as mail processing costs should be distributed with the
25   distribution keys traditionally applied to such costs.

26   • Not handling costs related to specific subclasses and special services (e.g.,
27   Express Mail, Registry, P.O. Boxes) should be attributed to those subclasses and
28   services.

29   • General overhead type not handling costs not linked to specific classes or
30   activities should be distributed based on all direct and mixed mail costs, within
31   facility type, CAG and, when available, basic function.

32   The method I propose for this docket relies on fewer untested or improbable
33   assumptions than Degen and is closer to the traditional approach. Yet it is far from
34   ideal, because much important information needed for accurate cost distribution simply

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1   is not available. In order to make possible more accurate cost distributions in the

2   future, the Postal Service must first of all develop a better way to collect data on mixed

3   mail. Some suggested improvements to the current method are described later in this

4   testimony. Secondly, it must address seriously the complaints of anomalously rising

5   costs that Periodicals mailers have raised for a number of years, as well as the true

6   causes for the still ongoing increase in not handling costs. This will require identifying

7   the criteria applied by postal managers both in hiring decisions and in their decisions to

8   assign employees to specific tasks, including their assignment of employees during

9   slack periods when no work is available, and an analysis of the economic impact of such

10   decisions.

11   In Section III I review the background against which the Postal Service's proposal in

12   this docket must be seen, including issues frequently raised by Periodicals mailers that

13   the Postal Service has chosen to ignore. Sections IV, V and VI detail my critique of

14   Degen's approach and explain the differences between his approach and mine with

15   regard to (1) the use of MODS and PIRS cost pool data; (2) mixed mail cost distribution;

16   and (3) not handling cost distribution.

17   Exhibit 1 shows my proposed distribution of mail processing costs, for all postal

18   facilities and separately for MODS offices, BMC's and NonMODS offices. Exhibit 2

19   shows my proposed distribution of all segment 3 costs, as respectively mail processing,

20   window service and administration/support costs. Exhibit 3 compares my proposed

21   distribution of segment 3 costs with that proposed by the Postal Service. Several

22   additional exhibits are included to illustrate specific points in my criticism of Degen's

23   approach. Appendix A describes in detail my methodology and the data sources I

24   relied on. Appendix B describes my proposed method for distributing window service

25   and administration/support related not handling costs.

26   **III BACKGROUND**

27   In order to view the Postal Service's proposal in this docket in its proper context, one

28   needs to consider the historical developments in mail processing costs, particularly

29   during the past ten years when the Postal Service implemented automation of letter

1   sorting. During that period, Periodicals mailers have seen a highly anomalous increase
2   in the processing costs attributed to them. MPA witness Cohen and industry witnesses
3   Little and Crain present testimony in this docket that reviews these historical
4   developments in detail and expresses the dismay of Periodicals mailers, both about the
5   increasing costs and the Postal Service's continued unwillingness to address this
6   problem. In this section I focus on the historical facts most relevant to my current
7   testimony.

8   In both Dockets R90-1 and R94-1 I testified before this Commission about the sharp and
9   anomalous increases in the mail processing costs for Periodicals, as measured by the
10   IOCS, since FY86. I offered some possible explanations for this phenomenon, including
11   the one that today still appears the most likely: that some of the employees processing
12   Periodicals at manual and mechanized operations are essentially "automation
13   refugees," i.e. employees formerly used for letter sorting, either manually or on LSM's,
14   but no longer needed for those tasks, except, perhaps, during short surge periods before
15   some critical dispatches. The rest of the time, these employees must still be clocked into
16   some operation in order to get paid, and there is strong evidence in this docket that
17   platforms and opening units, as well as manual flats cases, are among the favored areas
18   for employees to spend time when not needed elsewhere. In other words, letter mail
19   automation has had the paradoxical, presumably unintended and unforeseen,
20   consequence that productivity has continually declined at the various manual
21   operations where Periodicals are mostly handled.

22   Between FY86 and FY96, Periodicals processing costs increased much faster than postal
23   wage rates and faster than the costs of all other major mail classes, despite both new
24   technology and increased mailer presorting, barcoding and palletization that should
25   have made the Postal Service's job easier. Closely related to these cost increases have
26   been an increase in "not handling" and other non-productive time and a corresponding
27   decline in productivity at the operations where Periodicals mail is mostly handled.

28   Despite testimony by myself and others in the last two rate cases, despite admonitions
29   by the Commission, despite numerous other attempts by the Periodicals industry to
30   draw management's attention to this very serious issue, there has been no meaningful

1   effort by USPS management to address the problem.

2   In R94-1 it was revealed that the Postal Service had made one major change in its IOCS

3   procedures since Docket No. R90-1. It had replaced its previous method of collecting

4   data on mixed mail with an elaborate scheme that required IOCS data collectors to do

5   considerably more work than previously for each mixed mail tally. Unfortunately, this

6   scheme was hopelessly flawed in its concept, as I pointed out in my R94-1 rebuttal

7   testimony.[1] One major flaw is its complete failure to collect any class related

8   information about mail in containers, which incur most of the mixed mail costs,

9   apparently based on the belief that such information can be reliably inferred via a series

10   of proxies. In R94-1 the Postal Service itself declined to use this information, due to

11   questions about whether the data were really meaningful, and the Commission

12   concurred that the data should not be used.[2] In this docket, the Postal Service appears

13   to have forgotten all its previous reservations about this flawed scheme. As I show in

14   Section V, implementing this already flawed approach within many cost pools requires

15   even more unverified assumptions and causes even more biased results.

16   To its credit the Postal Service has in this docket challenged the long held but untested

17   assumption of 100% volume variability in mail processing. But when it comes to the

18   still rising Periodicals costs, the Postal Service's refusal to face the issue continues.

19   Despite all claims to the contrary, Degen neither inquires into nor addresses the reasons

20   for these rising costs. Instead his methodology not only unquestioningly accepts the

21   already high Periodicals costs, but would raise them further.[3]

22   Periodicals mailers understand that in the long run large rate increases cannot be

23   avoided if costs are allowed to remain out of control. They have been doing their part

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[1] TW-RT-1, Rebuttal testimony of Halstein Stralberg on behalf of Time Warner Inc., Docket No R94-1, at 12-13 (Tr. 11851-52).

[2] Docket No. R94-1, Tr. 1166-71; PRC Op. R9401 at III-22-23.

[3] While the mail processing costs attributed by Degen to Periodicals are about the same as under the old methodology used in FY96, this must be seen against a background of much lower systemwide attribution levels. In other words, Degen has in reality increased Periodicals mail processing costs substantially.

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1   to reduce their costs. The Postal Service, however, seems more concerned with its wish

2   to announce savings realized by automation. To support such claims, it proposes a new

3   cost distribution method that, unjustifiably and uncritically, shifts large amounts of

4   costs onto the mail that is still mostly sorted manually.

5   In fact, Degen has not addressed any of the major issues raised by Periodicals mailers.

6   "Not handling" costs are today larger than ever, and neither Degen nor the Postal

7   Service has made any serious effort to determine why they are so high or why they

8   keep rising. The best that can be said of Degen's approach is that it compiles data

9   showing which cost pools MODS employees are clocked into when they don't handle

10 mail. But Degen draws the wrong conclusion from this data. He ignores all available

11 information about what employees were <u>actually</u> doing while not handling mail,

12 assuming instead that the not handling costs within a cost pool are caused exclusively

13 by the direct and mixed mail processed within that same pool. Degen is not interested

14 in whether an employee was selling stamps, doing general administrative work,

15 monitoring an automated letter sorting machine or on break, relying instead on the

16 overriding assumption that not handling costs are causally related only within each cost

17 pool.

18 In trying to make better sense of the data presented by Degen in this docket, I have

19 come to conclude that there simply is no fully satisfactory way to distribute mail

20 processing costs based on the information available. Despite having spent millions of

21 dollars collecting mixed mail data, the Postal Service still does not know which

22 subclasses are within the containers that cause most mixed mail costs. Nor is it any

23 closer to explaining rising overhead and other not handling costs than when I first

24 raised the issue of automation refugees more than seven years ago.

25 In the rest of this testimony I present my criticism of Degen's methodology in more

26 detail, and explain the distribution method I believe is the best possible, given the

27 paucity of meaningful data.

28 **IV. COST POOLS**

29 Each clerk and mailhandler tally in the IOCS data base is associated with a dollar value,

1   where the sum of the costs for all tallies equals total accrued wage costs. Because IOCS

2   sampling frequencies differ between CAG's, these tally costs are computed relative to

3   the accrued costs within each combination of CAG and craft, as described in USPS-ST-

4   47. In the traditional IOCS method, these tally costs determined the contribution each

5   tally made to the distributed mail processing costs.

6   Degen's method assigns all tallies taken at MODS offices and BMC's to a number of cost

7   pools. The assignment is based on MODS (PIRS) operation numbers recorded by IOCS

8   clerks. Each pool is defined by its accrued costs, according to the Postal Service's pay

9   data system, and by a volume variability factor determined by Bradley. Degen uses the

10   IOCS tally costs through most of his program, but in the end, in order to be consistent

11   with Bradley's variability analysis, he re-weights the tallies in each cost pool so that the

12   sum of the tallies in each pool equals the accrued costs of that pool. Additionally, he

13   applies the volume variability factors determined by Bradley for each pool. In

14   mathematical terms, this is done as follows.

15   Let K be a given cost pool, I a tally assigned to that pool, and POOLCOST(K) the total

16   accrued costs within that pool, according to MODS. Let TCP(K) be the sum of the tally

17   costs (TC(L)) for all tallies L assigned to pool K. Under Degen's method, the volume

18   variable cost associated with tally I is then:

19    $PC(I) = TC(I)*POOLCOST(K)*VV(K)/TCP(K)$

20   where VV(K) is the volume variability factor for pool K, according to Bradley and TC(I)

21   is the tally cost for tally I.[4]

22   I agree with Degen that the general approach outlined above is an appropriate method

23   for applying Bradley's variability analysis to the IOCS data. However, I strongly

24   disagree with Degen's further decision to distribute all mixed mail and not handling

25   costs exclusively within their assigned pools. Doing so ignores all cross pool

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[4] See Tr.6528 where Degen describes how he converts tally costs to volume variable costs. USPS LR-H-304 contains, in spreadsheet Dma-13b.xls, the tally dollars and accrued costs for each pool used by Degen.

1 relationships and leads to severe distortions. Furthermore, consistency with Bradley's
2 analysis does not require confining cost distribution to within each pool.

3 In most cases I believe the best way to avoid the distortions introduced by Degen's
4 method, given the lack of more specific information, is to simply distribute the mixed
5 mail and not handling costs across all pools, though separately for MODS, BMC and
6 NonMODS facilities and, when possible, within CAG and basic function. On the other
7 hand, some not handling tallies are associated with specific information that allows a
8 more accurate distribution. The distributions I propose are equally consistent with
9 Bradley's variability analysis, since the cost I associate with each tally is given by the
10 above formula.

11 For example, assume that a tally describes an employee as selling stamps or setting
12 meters in a postal window, but that the tally is assigned by Degen to the FSM (flat
13 sorting machine) cost pool, because the observed employee was clocked into an FSM
14 related MODS code. Since Bradley's analysis of the FSM cost pool was based on all
15 wage costs for employees clocked into FSM MODS codes, regardless of what those
16 employees were actually doing, it may be necessary, for consistency, to apply the FSM
17 variability factor to all costs assigned to the FSM cost pool, i.e. to modify the tally costs
18 as described above. However, that does not mean that all not handling and mixed mail
19 costs within a given pool have to be <u>distributed</u> in the same way as the direct costs in
20 that pool. It still makes more sense to distribute not handling costs according to what
21 observed employees were actually doing. The appropriate way to distribute costs of
22 selling stamps or setting postal meters, for example, is based on the relative usage of
23 stamps and meters by the different subclasses, as in the traditional costing approach,
24 rather than distributing them within cost pools for totally unrelated functions.

25 In subsequent sections I offer several additional examples of the severe distortion
26 caused by Degen's pool-by-pool approach when, for example, mail that is treated as
27 mixed mail (e.g., loose letters or flats in a container) at one pool undergoes the piece
28 sorting that gives rise to most "direct" tally costs at other pools, and when employees
29 are frequently reassigned between pools, spending significant amounts of
30 nonproductive time at one pool in periods of low activity only to be really busy at

1   another pool during surge periods (e.g., before a critical dispatch).

2   These problems do not affect cost distribution within CAG's, which are separate groups
3   of facilities. Employees cannot easily be reassigned from one CAG to another, whereas
4   they easily can be, and frequently are, reassigned between cost pools. Nor do they
5   appreciably affect cost distribution within "basic function." The major basic function
6   categories are "outgoing" and "incoming." While there obviously is overlap, outgoing
7   and incoming operations in postal facilities are mostly done on separate shifts, limiting
8   the probability of frequent reassignments between basic functions.[5]

9   My alternative method distributes all mixed mail and most not handling costs across
10   cost pools, but within CAG and basic function. Further details of my approach, and of
11   the difference between my approach and Degen's, are given in Appendix A.

12   **V. MIXED MAIL COSTS**

13   In the IOCS, a direct tally occurs when an employee is observed handling an individual
14   piece of mail, or an "item" or container that contains identical pieces.[6] Additionally,
15   two methods are used to create some direct tallies from mixed mail. One is the "top
16   piece rule," normally applied when an employee is seen handling an individual bundle,
17   letter tray or flat tray. The other is counting the mail in some items that do not contain
18   identical mail and to which the top piece rule does not apply. In all other cases where
19   employees are seen handling mail, mixed mail tallies occur.

20   The volume variable mixed mail costs that Degen distributes include $66 million in
21   uncounted mixed mail item costs and $490 million in mixed container costs.

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[5] Outgoing mail is processed mostly on the Tour 3 (late afternoon and evening) shift and culminates with the dispatches of mail that came from collections that day. Then the Tour 1 (early morning) shift takes over and performs mostly incoming processing, which culminates with the dispatch of destinating mail to AO's, stations and branches. The Tour 2 (day) shift processes more incoming mail, mostly non-preferential, as well as transit mail.

[6] The pieces in an item or container are considered "identical" only if they "have the same origin, mail class, subclass, shape, size, weight and postage. The pieces are the same except for their destinations." USPS LR-H-49 at 88.

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1   Additionally, he includes in his definition of mixed mail $229 million in empty item
2   costs and $350 million in empty container costs. Altogether, he distributes $1,136
3   million in volume variable "mixed mail" costs, versus $4,873 million in "direct" costs,
4   including counted and top piece rule items, and $4,050 million in "not handling" costs.

5   The mail most likely to produce direct item or container tallies, and correspondingly
6   less likely to produce mixed mail tallies, is highly presorted mail that travels through
7   the postal system in mailer prepared bundles, sacks, trays or pallets, such as Periodicals
8   and most Standard A mail. Sacks, pallets and bundles from Periodicals mailers, for
9   example, have identical mail pieces in them and therefore mostly give rise to direct
10 tallies in IOCS. They incur substantial handlings at platforms and in opening units
11 (bundle sorting) but mostly as what IOCS calls identical mail.

12 Mixed mail, on the other hand, consists of either collection mail or mail that has
13 undergone at least one sorting operation and has thereby been mixed with other mail in
14 postal facilities. Periodicals mail is likely to cause a larger portion of the direct
15 item/container costs than of the mixed mail costs. That would imply that its share of
16 mixed mail costs should be less than its share of direct costs. However, quite the
17 opposite occurs under Degen's method. In MODS offices, for example, regular rate
18 Periodicals (2RR) has 3.86% of the direct volume variable costs, but Degen assigns it
19 5.75% of all mixed mail costs.

20 Distributing mixed mail costs fairly to mail subclasses is a difficult task. Frankly, the
21 Postal Service's proposed scheme is not adequate to the task. It is essentially the same
22 flawed approach that the Postal Service cautioned against using, and the Commission
23 agreed should not be used, in Docket No. R94-1 (see Note 2, Supra). In order to
24 implement it within each cost pool, Degen adds many new and unsubstantiated
25 assumptions that make an already flawed approach even worse. He introduces even
26 more distortions by extending the approach to empty equipment costs that in the past
27 were simply treated as general overhead costs.

28 The evidence Degen presents to link mixed mail costs to specific subclasses is so weak
29 that it raises doubt whether there exists any basis for attributing these costs to

1   subclasses.   If the Commission decides that these costs should nevertheless be

2   attributed, however, I recommend that it use the following approach:

3   (1) Mixed mail costs associated with specific shape categories (letters/cards, flats,
4   or IPP's/parcels) should be distributed over the direct costs associated with the
5   corresponding shapes, within CAG, basic function and facility type; and

6   (2) All other mixed mail costs, including empty item and container costs, should be
7   distributed over all direct mail costs, again within CAG, basic function and
8   facility type.

9   This is essentially the same approach as that which the Commission applied in previous

10   dockets.[7] It is not an ideal solution. It is likely to attribute an excessive portion of the

11   mixed mail costs to the highly presorted subclasses, which provide most of the "direct"

12   items and containers handled by the Postal Service. It is, however, still a much better

13   approach than what the Postal Service proposes in this docket.

14   In order to be able to accurately distribute mixed mail costs in the future, what is

15   needed is nothing less than a complete rethinking and redesign of the current IOCS

16   approach to collecting data on mixed mail. The current approach, while elaborate and

17   costly, simply fails to produce information from which reliable inferences can be drawn

18   about the subclass content of mixed items and containers. The Commission should

19   send the Postal Service back to the drawing board to come up with a better approach

20   before the next rate case.

21   The following discussion explains in detail the particular problems with Degen's mixed

22   mail approach. I discuss mixed and empty item costs first, and then mixed and empty

23   container costs. Finally, I show how the Postal Service's mixed mail scheme has an

24   imbedded bias against palletized mail, by treating pallets differently from other entities

25   (containers) used to carry bundles, sacks and trays.

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[7] Appendix A explains in detail how I propose to implement this approach in the present docket.

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1   A. MIXED AND EMPTY ITEM COSTS

2   1. Mixed Item Costs

3   IOCS clerks collect data on 16 different "item" types, including bundles, three types of

4   trays, ten types of sacks, pallets and "other" items. When they encounter bundles, letter

5   trays or flat trays that do not contain identical mail, they are supposed to apply the "top

6   piece rule" to determine the subclass. Ideally, according to IOCS handbook F-45 (USPS-

7   LR-H-49), all mixed mail items to which the top piece rule does not apply should be

8   counted.

9   In FY95 the Postal Service extended the top piece rule to apply to all letter and flat tray

10   tallies.[8] Since non-top piece rule items are supposed to be counted, there should,

11   therefore, not be any mixed mail items in the IOCS data base. In reality, however, there

12   are $66 million in volume variable ($93.6 million accrued) uncounted mixed mail item

13   costs in the BY96 data. Of the $66 million, $26.2 million are for bundles and letter and

14   flat trays, to which the top piece rule should have been applied. According to Degen,

15   this failure to apply the top piece rule was either because of concern about delaying the

16   mail, or because of errors on some tallies. Tr. 6456-7.

17   According to the IOCS handbook, non-top piece rule items should be counted except

18   when it is "extremely difficult" to do so. USPS LR-H-49. Yet, in reality, only about half

19   of them were counted. When uncounted bundles and letter and flat trays are included,

20   IOCS clerks counted only about 38% of the mixed items to which the top piece rule was

21   not applied.[9] This is illustrated in Exhibit 4, which shows, for each item type and

22   facility type, the volume variable costs of, respectively, direct, counted, mixed

23   uncounted and empty items.

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[8] According to witness Patelunas: "Prior to this change, there were a number of conditions under which the 'top-piece' rule did not apply. Under the new procedures, the data collector uses the 'top-piece' rule for all letter and flat tray tallies." MC97-2, USPS-T-5 at page 10.

[9] Degen refers to concern about delaying the mail as another reason for not counting mixed items. That reason, however, is mentioned neither for top-piece-rule nor non-top-piece-rule items in the IOCS handbook. The handbook gives only two examples of "extremely difficult": (1) palletized, shrink-wrapped sacks; and (2) "a sealed registered pouch or CON-CON that cannot be unlocked." Handbook at 90-91. In reality, many much easier to count items also remained uncounted.

1   Degen distributes the costs of uncounted mixed items, empty items and items in
2   containers with a distribution key based on subclass information for direct and counted
3   items. He performs these distributions within cost pool and item type. This approach
4   is seriously flawed. For the following reasons, neither the direct item data nor the
5   counted item data, nor the combination of both, is suitable for the purpose of
6   distributing the costs of uncounted mixed items.

7   The table below breaks down the costs of direct and counted mixed non-top piece rule
8   items by major class category. Direct items, i.e. sacks and pallets with identical pieces,
9   are generally prepared not by the Postal Service but by bulk mailers, mainly Periodicals
10   and Standard A mailers. As the table shows, over 56% of these item costs are for
11   Standard A, with another 26% for Periodicals. In MODS offices, Periodicals account for
12   almost 31% of the direct sack and pallet costs (see Exhibit 5). Obviously, therefore, the
13   data on these direct sacks and pallets are not at all suitable for determining the
14   proportions by subclass of mail contained in mixed mail items, which can contain all
15   kinds of mail, including collection sacks and sacks made up at USPS pouching units.

Direct & Counted Item Costs - All Offices				
(Volume Variable Costs - Non-Top Piece Rule Items)				
Subclass	Counted		Direct:	
	$1,000's	Percent	$1,000's	Percent
First	6,260	14.88%	3,014	5.52%
Periodicals	5,129	12.20%	14,130	25.87%
Standard A	8,519	20.26%	30,786	56.37%
Standard B	5,125	12.19%	2,680	4.91%
Priority	9,157	21.77%	1,592	2.91%
Express	2,220	5.28%	875	1.60%
Other	5,647	13.43%	1,541	2.82%
Total	42,057	100.00%	54,618	100.00%

16   Degen might have produced less distortion if, instead of using direct and counted item
17   data to distribute uncounted mixed item costs, he had used only the counted item data.
18   This approach would still not be correct, however, because it is evident that the mixed
19   items IOCS data collectors count do not have the same characteristics as the mixed
20   items they choose not to count.

1   One way to confirm that the selection of which mixed items to count was biased is to
2   compare the relative counted and uncounted costs for different item types in Exhibit 4.
3   For parcel trays (TRAY-P), 74.3% were counted, more than for any other item type.
4   Second in percent counted were brown sacks, with 70.4%. For most item types, the
5   percent counted was substantially less. This is hardly a coincidence. Brown sacks
6   mainly carry magazines. Because magazines are relatively large, there tend to be few of
7   them in each sack and they are therefore easy to count. Parcel trays carry parcels,
8   which are also large and are few in number and easy to count.

9   The Postal Service may believe that this bias in counting doesn't matter, as long as one
10   analyzes each item type separately. However, there is no reason to suppose that the
11   tendency to count items with a few large pieces, and not items with many small pieces,
12   does not extend to all item types. In fact, it is to be expected that IOCS clerks, pressed
13   for time to meet their quota of tallies, would tend not to count a collection sack with
14   hundreds of different pieces in it, but to count any item with just a few pieces.[10]

15   This is not a new issue. It was debated extensively in Docket No. R94-1, where both my
16   testimony and that of MPA witness Cohen demonstrated the strong probability of bias
17   in the selection of which items to count. At that time, both the Commission and the
18   Postal Service concluded that the counted item data could not be relied on to distribute
19   the costs of uncounted items and items in containers. The Commission should draw the
20   same conclusion in this docket.[11]

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[10] On cross examination (Tr. 6706), Degen implied that the main reason mixed items were not counted was to avoid delaying the mail. But unless the item is encountered just before a critical dispatch, the sampled employee could continue to work on other items while the data collector counts the one sampled. If almost half of all mixed items are observed just before a critical dispatch, then the Postal Service must have a much worse peaking problem than anyone has imagined. And those uncounted items must all contain high priority mail, unlike the counted items which contain all kinds of mail and certainly unlike the direct items which are almost all Periodicals and Standard A. It is much more likely that the data collectors, in most cases, chose not to count because it would delay them, not because it would delay the mail.

[11] In R94-1 USPS witness Barker testified that the costs of counted items should not be viewed as sufficiently reliable to use for distribution purposes unless and until the Postal Service had performed a special study to determine why so many mixed mail items remained uncounted and whether there existed a rational basis for distributing their costs based on the counted items. Tr.

17

1   For bundles and letter/flat trays, to which the top piece rule normally applies, less
2   distortion might be achieved by excluding the direct item costs and attributing mixed
3   item costs based only on the costs of top piece rule items, which after all are also mixed
4   mail. That improvement to Degen's approach, however, would still not guarantee a
5   correct distribution, given Degen's explanation that these items were recorded as mixed
6   in order not to delay the mail.[12]

7   An additional problem that arises if one tries to distribute item costs within each of
8   Degen's cost pools is the extreme thinness of the data in individual cells. In Degen's
9   MODS data, I found 233 combinations of cost pool and non-top-piece-rule item type
10 where mixed items had been observed. In 72 of these cells not a single item had been
11 counted, and in those 72 cells a distribution across all pools becomes necessary in any
12 case.

13 2. Empty Item Costs

14 In both MODS and NonMODS offices the cost of handling most item types was almost
15 as large when the items were empty as when there was mail in them, which makes one
16 wonder how much of the time recorded as spent handling empty items is time well
17 spent. As Exhibit 4 shows, some item types purportedly cost substantially more to
18 handle when empty than when there is mail in them.[13]

19 Degen's approach to distributing the $229 million in volume variable empty item costs
20 is flawed for at least two reasons. First, as discussed above, his distribution key is
21 biased by giving too much weight to mail in direct items and too little weight to mail in
22 mixed items.

1157-58, R94-1. The Postal Service has presented no results from such a special study in this docket. Nor, to my knowledge, has it ever conducted or considered conducting such a study.

[12] If concerns about delaying the mail were so serious that the data collectors did not even have time to look at one piece in these items, the items must indeed have contained some high priority mail. These bundles and trays must in any case have contained mail different from that contained in the bundles and trays to which there was time to apply the top piece rule, again indicating a likely bias when one distributes one set based on the other.

[13] At BMC's, most items not containing parcels are simply transferred without being opened. Even there, however, $14 million were incurred in handling of empty items.

18

1   Second, Degen's approach rests on the assumption that each item type containing mail

2   that is handled within a given pool is correspondingly handled as empty within the

3   same pool. Degen provides no evidence that this is true and apparently has not even

4   looked for such evidence. In fact, it is almost certainly false. Take for example a direct

5   sack which may travel through several postal facilities, undergoing various loading,

6   unloading, sorting and transfer operations before finally being emptied at its

7   destinating facility (e.g. a delivery unit in the case of a carrier route sack). Whatever is

8   subsequently done to the empty sack to cause it to incur, according to Degen's data,

9   almost as many costs as when it carried mail, it is extremely unlikely that its path back

10 to a mailer will pass though exactly the same operations.[14] I found 238 combinations of

11 item type and MODS cost pool where empty items had been observed. In 50 of those,

12 items had been observed _only_ when empty. In an additional 26, no direct or counted

13 items were observed.

14 If costs of empty sacks and other items are to be attributed at all to specific subclasses,

15 they should, given the complete lack of evidence supporting Degen's narrower

16 distribution, be treated as general overhead costs, distributed upon all direct costs.

17 **B. MIXED AND EMPTY CONTAINER COSTS**

18 1. Mixed Container Costs

19 The Postal Service's current scheme for collecting data on mixed container costs in IOCS

20 is fundamentally defective, due to its failure to collect any class-related information

21 about these containers. Instead, it relies on a series of proxies to distribute these costs to

22 subclasses. Degen did not invent this system, which both the Postal Service and the

23 Commission rightly declined to place any reliance on in R94-1, but he not only adopts it

24 (the first Postal Service witness to do so) but increases the impact of its deficiencies by

25 applying it within a large number of individual cost pools. In the process he introduces

26 a number of unstated, unproven, improbable and in some cases clearly erroneous

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[14] Some emptied items will be filled with other mail in the facility where they were emptied. Those items at least will _not_ traverse as empty the path they followed when full.

1   assumptions.

2   *Assume that an IOCS data collector sees an employee handling two flats bundles, one*
3   *containing copies of* Time *and the other copies of* Newsweek *(a quite possible scenario,*
4   *since these publications are handled similarly and generally at the same time of the*
5   *week). Although this would appear to be identical mail for all purposes relevant to the*
6   *distribution of mail processing costs, the IOCS defines it as not "identical" and the data*
7   *collector must refrain from capturing the readily available class information and instead*
8   *record a "multiple item container" with bundles in it. Tr. 6550-51 The same applies to*
9   *bundles of Standard A catalogs, First Class presorted letters (unless exactly equal in all*
10   *relevant* and irrelevant *respects), and so on. Degen then relies on the distributed costs*
11   *of bundle handling within each pool as a proxy to determine the costs of bundles*
12   *observed in various types of containers.*

13   The absurdity of this approach is perhaps most obvious in Degen's treatment of loose
14   mail observed in containers. Containers with loose flats (and similar containers with
15   letters) appear mostly at platforms and opening units, whereas their contents, i.e. the
16   pieces and items carried in those containers, are mostly handled elsewhere. It is
17   therefore inappropriate to distribute the mixed container costs within each pool.

18   Yet Degen distributes the large costs of loose flats and letters observed in containers at
19   platforms and opening units on the basis of the relatively small portion of individual
20   letter and flat handlings recorded at those operations, instead of the much larger
21   portion performed at the operations dedicated to piece sorting.

22   Degen states the assumption underlying his approach: that "the subclass distribution of
23   direct tallies handling flat-shape pieces in the same cost pool is an unbiased estimate of
24   the unknown subclass distribution of loose flats in mixed-mail containers." Tr. 6528.
25   He provides no evidence to support this assumption, and refers to no study of its
26   accuracy. Moreover, application of his approach within each cost pool requires the
27   further (unstated) assumption that mail that appears in containers at a given pool also
28   appears as loose mail at the same cost pool. This latter assumption is clearly wrong, as
29   the table below illustrates.

Direct And Loose-In-Container Item Costs At MODS Platforms/Opening Units		
Item Type	Direct	Loose In Containers
Letters	6.97%	53.30%
Flats	9.38%	48.51%
Bundles	22.77%	64.28%
Flat Trays	32.63%	61.84%
Letter	29.00%	55.61%

1   The table shows, for five major item types, the percentages, respectively, of direct and
2   loose-in-container handling costs that occur at platforms and opening units in MODS
3   facilities. In the case of letters, for example, only 6.97% of direct handlings occur in
4   those cost pools, yet over 53% of the loose-letters-in-container costs occur there.
5   Degen's method, therefore, distributes over half the letters-in-containers costs based on
6   only a small and incidental part of the total letter handling costs. For flats, the
7   imbalance is almost as large: 48.51% of the loose-flats-in-container costs are distributed
8   based on only 9.38% of the direct flats costs.[15]

9   This imbalance is not limited to loose pieces in containers but extends to bundles and
10   other items (e.g., flat and letter trays) as well. For example, only 22.77% of direct
11   bundle handling in MODS offices occurs at platforms and opening units, while 64.28%
12   of bundles-in-container costs occur there. The pools with the largest percentages of
13   direct bundle handling are manual letters (18.59%) and BCS operations (13.87%), but
14   employees at those operations apparently do not move the containers that hold all those
15   bundles, since they only have 4.44% and 0.88% respectively of the bundles-in-container
16   costs. Exhibit 6 contains additional data on direct and loose-in-container item costs.

17   The result of Degen's pool-by-pool distribution is that mail classes that receive a large

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[15] Since in Degen's universe flats are sorted at letter operations, letters are sorted at flats operations and in fact both are sorted just about anywhere, one suspects that most of the letter and flat sorting that appears at opening units and platforms results from employees being clocked into one operation but working at another. Generally, individual letter and flat sorting is not performed at platforms or opening units. (Even if an employee were to remove a handful of letters or flats from a container in order, for example, to place them in a tray, he would be recorded in IOCS as handling a bundle rather than as handling letters or flats.)

1   <u>portion of their total handling at platforms and opening units, such as Periodicals, will</u>
2   <u>be held responsible for a disproportionate share of container costs.</u>

3   This particular problem can be partly ameliorated by distributing container costs across
4   all pools, rather than within pools. I strongly recommend this alternative if the Postal
5   Service's container data are to be used at all.

6   There is, however, another, more fundamental problem with Degen's loose-mail-in-
7   container data that I see no way of addressing short of discarding all the current mixed
8   container data, distributing all mixed costs upon all direct costs and urging the Postal
9   Service to come up with a better system in the future.

10   It is obvious that since Periodicals do undergo a lot of flat sorting they will, under any
11   variant of Degen's scheme, be held responsible for a large portion of the $38 million
12   loose flats in container costs. But when, if ever, do Periodicals flats appear loose in
13   containers?

14   The only types of flats one would reasonably expect to appear loose in large containers
15   are non-presorted flats arriving through collections, or perhaps being brought to postal
16   platforms by certain types of First or Standard A mailers. Periodicals flats are packaged
17   by mailers and submitted as bundles on pallets or in sacks. When those pallets or sacks
18   do get opened, the bundles are sorted into containers, but as bundles, not as loose
19   pieces. Putting loose Periodicals (or Standard A) flats in containers would destroy their
20   presortation and possibly their facing as well.[16]

21   One can only speculate as to the correct interpretation of these loose-pieces-in-container
22   costs. Such speculation would not be necessary if the IOCS directly captured class

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[16] Some bundles, of course, are broken unintentionally as they move through the system. It is also possible that postal employees do occasionally break open flat and letter bundles and place them as loose pieces in hampers and other containers. But even if this is done in a way that does not require extra piece sorting, it still would be inefficient make-shift work, as a handling step could be saved by simply taking those bundles, after they have been sorted into hampers, etc., to the operations where they will be piece sorted and placing them directly on the ledge of the sorting cases or machines.

1   information for containerized mail.

2   2. Empty Container Costs

3   Containers, like items, cost almost as much to handle when empty as when there is mail
4   in them, if Degen's data are to be believed.

5   Degen distributes the empty container costs, for each container type and within each
6   cost pool, based on the costs he has distributed for mixed and direct containers of the
7   same type at the same cost pool. Consequently, all the highly questionable assumptions
8   Degen relies on to distribute mixed container costs are extended to the additional $350
9   million in empty container costs. In addition, his distribution of empty container costs
10   relies on the further untested, unstated and most likely erroneous assumption that each
11   container type containing mail that is handled within a given pool is correspondingly
12   handled as empty within the same pool.

13   The reasons for rejecting Degen's distribution of empty container costs are therefore
14   even stronger than the reasons for rejecting his distribution of mixed container costs.
15   As with empty items, if empty container costs are to be attributed at all to subclasses,
16   they should be treated as general overhead costs and distributed based on all direct
17   subclass costs.

18   C. PALLETS SHOULD BE TREATED AS CONTAINERS.

19   Another ill-conceived aspect of the IOCS mixed mail scheme is that pallets are
20   considered items rather than containers. Most direct pallets contain mailer prepared
21   Periodicals or Standard A bundles. Most of the pallets that were counted (as items) also
22   appear to have contained Periodicals or Standard A bundles. But pallets are also used
23   to carry sacks or trays which, as Degen confirmed (Tr. 6539-40), are unlikely to be
24   counted because of the significant effort that would entail. Furthermore, because pallets
25   are defined as items rather than containers, there is no way for the data collectors to
26   record the fact that a pallet had sacks or trays rather than bundles on it. Tr. 6568. This
27   creates an inconsistency relative to how items in containers are recorded.

28   To illustrate this problem, consider a highly simplified example. Assume that a given

1 postal operation (e.g., opening unit) is dedicated exclusively to bundle sorting, that it
2 handles only two classes of mail, and that class A's bundles arrive in APC's while class
3 B's bundles arrive on pallets. Assume further that each class is found to incur $1,000 in
4 direct bundle handling costs, and that the operation additionally incurs $500 in pallet
5 handling and $500 in APC handling costs, for a total cost of $3,000. Obviously, since
6 class A is the only class using APC's, class B the only class using pallets, and their
7 bundle handling costs are equal, both are responsible for a total of $1,500.

8 That, however, is not how the Postal Service's "improved" mixed mail system works.
9 Since class B is the only class using pallets, and pallets are defined as "items," class B
10 will be held responsible for all pallet handling costs. Since APC's are defined not as
11 items but as containers, IOCS clerks are not allowed to report the fact that the bundles
12 in APC's are all class A, only that they are bundles.[17] And since class B has one half of
13 the bundle handling costs, it will be held responsible for half of the APC costs as well.
14 In other words, $1,750 will be attributed to class B and only $1,250 to class A.

15 Let us now consider how this affects Periodicals. Bundles of Periodicals are, to a large
16 extent, carried on pallets through the postal system. If pallets were defined as
17 containers, like all other entities that may contain bundles as well as sacks and trays,
18 then an IOCS data collector who saw a pallet with Periodicals bundles would record it
19 only as a pallet containing bundles, with no class information. The costs of that pallet
20 would then be distributed based on the costs of all bundle handlings. Since regular rate
21 periodicals (2RR) has about 6.8% of all bundle handling costs, it would be assigned
22 about 6.8% of all costs of pallets with bundles on them. Instead, since pallets are
23 defined as items, 2RR is assigned more than one third of all pallet costs, including the
24 costs of pallets containing sacks or trays that are likely to belong to other classes. In
25 addition, 2RR is held responsible for 6.8% of the costs of other containers with bundles
26 in them.

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[17] Unless, of course, all the pieces in an APC are identical. But bundles in APC's are more likely to
be bundles that already have been sorted at another post office, i.e. mixed with bundles from other
mailers, even if they may all be of the same class.

1   This is yet another example of how Periodicals mail is certain to be overcharged under
2   any possible use of the item/container data collected by the current IOCS. To correct
3   this particular distortion, IOCS must be modified to (1) allow the fact that a pallet
4   contains sacks, trays or parcels rather than bundles to be recorded; and more
5   importantly, (2) record class related information for containers as well as items.

D. MIXED MAIL SUMMARY

7   The Postal Service's method of distributing mixed mail costs had fundamental problems
8   even before Degen attempted to apply it separately within each of a large number of
9   cost pools:

10 (1) it failed to recognize the fundamental difference between direct items (i.e.,
11   items with identical mail pieces) that almost always originate from bulk mailers
12   and mixed mail items that can contain all kinds of mail;

13 (2) it failed to address the inevitable bias introduced by letting IOCS data collectors
14   count only items that are easy to count and will not delay the mail;

15 (3) it failed to recognize the difference between trays and bundles so time sensitive
16   that trained data collectors did not even have time to examine one piece, and
17   other trays and bundles;

18 (4) it created an inevitable bias against mail that travels through the system in
19   palletized bundles, by treating pallets as items instead of as containers;

20 (5) it completely failed to record any direct class information about mail in mixed
21   containers, even for containers that contain only one subclass but with non-
22   identical pieces; and

23 (6) it relied on a number of unverified and unreasonable assumptions regarding
24   the relationship between loose mail in containers and piece handlings, ignoring
25   for example the fact that letters and flats that appear loose in containers usually
26   have come through collections.

27 Degen compounds these already severe problems by applying the same unsound
28 procedures, and relying on the same inadequate data, within individual cost pools.
29 Besides the extreme thinness of the mixed mail data that he places his reliance on, he
30 has to rely on assumptions that relationships hold true within individual pools that
31 may not, and probably do not, hold even in the aggregate. One consequence, discussed
32 above, is that he distributes the large costs of loose letters and flats in containers
33 observed at opening units and platforms in proportion to the mostly incidental

25

1   handling of individual letters and flats that occurs at those operations.

2   I do not necessarily advocate going back to the system that existed some years ago,
3   when containers were characterized as "mixed First and third," "mixed fourth," etc.
4   That system had its own weaknesses. But under the current system, IOCS clerks are
5   being asked to do much more work than before for each mixed mail tally, yet the end
6   result is less useful information. With all the effort that now goes into producing item
7   and container tallies, there certainly must be a way to capture better information
8   relevant to cost distribution.

9   I therefore urge the Commission to decline to adopt Degen's deeply flawed approach to
10   distributing mixed mail costs and to send the Postal Service back to the drawing board,
11   insisting that it come up with a mixed mail system that makes sense. In the meantime,
12   the best solution available is to use the simpler and more traditional approach outlined
13   above and described in more detail in Appendix A, i.e., to distribute shape related
14   mixed mail costs based on the corresponding shape related direct costs and to distribute
15   other mixed mail costs based on all direct costs. That approach still produces some bias
16   against the types of mail that mostly travels through the postal system as identical (and
17   thereby direct) mail, but the distortion is much less than under Degen's approach.

18   VI. NOT HANDLING COSTS

19   The disastrous and highly anomalous increase in Periodicals costs over the past ten
20   years occurred at the same time as two other major changes. One was the automation
21   of letter sorting. The other was a sharp increase in costs referred to in this docket as
22   "not handling" costs. In this section I first discuss the increase in not handling costs:
23   how it is a natural consequence of increased automation and how, under the Postal
24   Service's costing methods (old and new), the least automated mail will inevitably be
25   held responsible for a portion of this cost increase, even though it did not cause the
26   increase.

27   Next I show that the distribution of not handling costs proposed by Degen compounds
28   the problem, first by ignoring important information available about some of the not
29   handling costs and second by wrongly assuming that not handling costs are causally

1   related only to direct and mixed mail costs within the same cost pool. Finally, I describe
2   a better way to distribute not handling costs, which uses much of the information
3   Degen ignored, while relying on fewer unverified assumptions.   Unlike Degen's
4   approach, my approach uses distribution keys that correspond to the nature of each
5   type of not handling activity. I distribute these costs, not within MODS cost pools, but
6   within facility type, CAG and basic function.

7   **A. AUTOMATION HAS CAUSED A LARGE INCREASE IN NOT HANDLING**
8   **COSTS, MUCH OF WHICH THE LEAST AUTOMATED MAIL HAS WRONGLY**
9   **BEEN FORCED TO ABSORB.**

10 As late as Docket No. R90-1, the only type of "not handling" costs of which there was
11 general awareness outside the Postal Service itself was so-called overhead, consisting of
12 breaks/personal needs, clocking in and out, and handling empty equipment.
13 Testimony in that docket, by myself and others, questioned why overhead costs, as a
14 percentage of other mail processing costs, had grown from 20.8% in FY86 to 23% in
15 FY89. That increase, however, was small compared to what followed. In FY95 the
16 overhead percentage grew to 29.4%, and in FY96 it jumped to 31.5%.

17 The largest component of overhead costs is break/personal needs time. According to
18 Degen's data, an astonishing 15.4% of all working hours in mail processing facilities are
19 spent on breaks. That is an hour and 14 minutes in an average eight-hour work day,
20 not including lunch breaks.

21 However, as early as R90-1 my testimony postulated the existence of considerable
22 additional "not handling" time, in the form of "automation refugees," i.e. employees no
23 longer needed for manual letter sorting but still in the system, having been reassigned
24 to the manual operations, particularly opening units, where productivity is least
25 monitored in postal facilities. That seemed then, and still seems today, the only possible
26 way one can explain the large increases in Periodicals costs.

27 Another cost category, namely costs reported as "mixed mail" by the LIOCATT, also
28 grew dramatically after FY86. In Docket No. R94-1 witness Barker revealed that what
29 were called "mixed mail" costs, (i.e. costs with IOCS activity codes 5610-5750) included

1   not just mixed mail but also not handling, and that in fact most of the increase in those

2   costs was in the not handling component. In FY96, according to Degen's data, these not

3   handling costs were about as large as the break-time costs, representing another 15% of

4   all time spent in mail processing facilities. That is not all. One of the more bizarre

5   "facts" brought to light in this case is that about one third of the time spent on

6   "handling empty equipment" is actually spent not handling empty equipment, or

7   anything else. Tr.6532. The "not handling empty equipment" costs are 2.8% of all mail

8   processing costs. Clocking in and out adds another 1.9%. Altogether, 35.1% of clerk

9   and mailhandler mail processing costs, or almost three hours in an eight hour day, are

10   spent on breaks/personal needs, clocking in/out, "not handling empty equipment" or

11   "not handling" as defined by activity codes 5610-5750. In some cost pools, mainly

12   operations where postal facilities do not measure productivity, these percentages are

13   even much higher.[18]

14   In order to understand what all these non-handlings mean, it is necessary to realize one

15   of the limitations of the IOCS. Apart from breaks, the IOCS has no way of indicating

16   that an employee was observed doing nothing at all. If no specific category on the IOCS

17   clerk's handheld computer fits, he must choose from categories such as "other work,"

18   or indicate that the employee was on his way to get something, etc. There is no way to

19   indicate complete non-activity. The Postal Service's position is, of course, that their

20   employees are always kept busy. See, for example, Moden's response to TW/USPS-T4-

21   9d at Tr. 5935-36 and Degen's response to TW/USPS-T12-23 at Tr. 6522-25.

22   Other than common sense, therefore, the only proof that all these not handling costs do

23   not represent productive time is the simple historical fact that most of them did not

24   exist before FY86. Attempting to justify the large increase in these costs in R94-1,

25   witness Barker argued that with increasing automation employees spend more time

26   monitoring machines and less time touching individual mail pieces. He said that this is

27   not a problem as long as overall productivity is improving. Tr. 1237-39, R94-1.

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[18] The percentage is higher still when one removes the window service and administrative costs that Degen has incorrectly included in his definition of mail processing. The percentage is close to 50% at opening units and over 50% at platforms and sack sorting operations.

1 Barker's explanation would make sense if most of the new not handling costs occurred

2 at the most automated operations. Instead, as can be seen from Degen's data, most of

3 these costs occur at non-automated operations. That, essentially, is what I postulated in

4 my R90-1 testimony, without the supporting evidence available today.[19]

5 In fact, it is not surprising that most non-handlings occur at opening units and

6 platforms, given that those are the operations where productivity is not monitored.

7 Even the USPS Inspection Service has concluded that facility managers have little

8 incentive to worry about productivity at those operations.[20] Furthermore, postal

9 employees have to clock in somewhere as soon as they arrive at work or get back from

10 lunch, in order to get paid. The ten minutes per day spent clocking in and out of

11 operations show that facilities have ample flexibility to send these employees where

12 they are needed when they are needed, but why send them to an automated sorting

13 operation before they are really needed there, when doing so would reduce the

14 productivity achieved at that operation? Not surprisingly, it appears that employees

15 often start their shift by checking into some opening unit and stay there until they are

16 given specific assignments.[21]

17 Of course, excessive not handling time is not limited exclusively to platforms and

18 opening units, as can be inferred from the sharply reduced productivity (pieces per

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[19] Strictly speaking, what I postulated in R90-1 was that over-staffing at some manual operations would reduce productivity at those operations and be reflected in IOCS as higher costs for the mail that receives most of its handlings at those operations. The sharp increase in not handling is one manifestation of this phenomenon that can be recognized in IOCS, assuming one is willing to compare data for different years. Another manifestation that IOCS cannot identify directly, but that is confirmed by declining productivity figures (Tr. 5565), is that employees at over-staffed operations simply work slower than if they were under real pressure to meet a deadline. Even Moden appears to agree that employees don't always work equally hard. Tr. 5990-91.

[20] See USPS LR-H-236, U.S. Postal Inspection Service, "National Coordination Audit: Allied Workhours" (December 1996), at 10,13.

[21] Id. at 19. Even though they spend ten minutes a day on the average clocking in and out of operations, there is evidence that employees don't always bother to do so when they go from one operation to another. How else can one explain letters being sorted at flats cases and vice versa, window customers being served in areas where they are not admitted, etc.? Table 6-1 in Exhibit 6 shows how the handlings of different shape items are spread over MODS operations. See Tr. 6400-6413 for the spread of non-handlings with different activity codes over MODS operations.

1   manhour) at almost all letter and flat sorting operations from FY88 to FY96 that is

2   reflected in Bradley's MODS data. Time Warner XE-2 to witness Bradley, Tr. 5565[22]

3   To summarize, letter mail automation has had two major effects. First, it has

4   dramatically reduced the direct costs involved in sorting letters, due to the order of

5   magnitude difference in productivity between automated and manual letter sorting.

6   Second, it has brought about a major increase in not handling costs, not only at

7   automated operations, where Barker said an increase should be expected, but in many

8   manual operations, as I postulated in R90-1. Overall, the savings in direct costs are no

9   doubt larger than the increases in not handling costs. The trouble is, however, that the

10   IOCS is not capable, and was never designed to, detect the connection between these

11   two phenomena so that the cost savings produced by the automation program would

12   be offset by the cost increases it also produces.

13   Nor does it appear that the Postal Service has made any serious attempt to study this

14   connection, although one might think that addressing this issue would provide valuable

15   clues as to how the postal work force can be managed more efficiently. Instead the

16   Postal Service has, over the past ten years, burdened the least automated mail with an

17   ever greater portion of not handling costs that were caused by automation, thereby

18   allowing it to make exaggerated claims about automation savings.[23]

19   A simple example will illustrate why, even before Degen introduced further distortion

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[22] Of the productivity declines shown by that exhibit, perhaps the 18% decline in flat sorting machine (FSM) productivity is the most counterintuitive. Since FY88, FSM's have been changed from their original configuration to a more efficient 2+2 configuration that, according to Moden, was expected to increase productivity by 13%, based on engineering estimates. Moden response to TW/USPS-T4-14j at Tr. 5957, 5960. More importantly, they have all been equipped with barcode readers, and a large portion of non-carrier route flats today, at least Periodicals and Standard A flats, are pre-barcoded. Despite all that, and the improvements one might expect as postal employees became more familiar with these machines, productivity declined from 893 pieces per manhour to 734. (The decline was 21% before Bradley "scrubbed" his data.) Note that FSM is mislabeled FSB in the exhibit referred to.

[23] See General Accounting Office, "Automation is restraining but not reducing costs" (May 1992), at 28-29, 34-35; "Postal Service role in a competitive communications environment" (May 24, 1994) at 12-13.

1   in this docket, the Postal Service's distribution of "not handling" costs in proportion to

2   the "direct" costs has led to a bias against the least automated mail. Consider a postal

3   service that handles only two product lines (mail classes 1 and 2) and uses a system

4   similar to IOCS to distribute costs between them. At a certain point in time both classes

5   are handled manually. The costing system shows $1,000 in "direct" costs for each class,

6   and another $1,000 in "not handling" costs. In other words, total costs are $3,000. Since

7   each class has the same direct costs and both are handled similarly, the not handling

8   costs are also split equally between them; i.e. a total of $1,500 is attributed to each class.

9   This postal service then automates the processing of class 1, while class 2 continues to

10   be handled manually. After this change, the costing system shows that the direct costs

11   of class 1 have been cut in half, to only $500, while the direct costs for class 2, still

12   handled manually, remain at $1,000. However, the not handling costs have increased

13   by $200, to a total of $1,200. In other words, total costs are $2,700, a saving of $300.

14   It is reasonable in this case to give class 1 credit for the $300 saved; i.e. its new costs

15   should be set at $1,200, while the costs of class 2 should remain at $1,500. That,

16   however, is not how the costing system works if it is like the real IOCS. It concludes

17   that since class 2 now incurs two thirds of the direct costs, it must also be responsible

18   for two thirds of the $1,200 not handling costs. In other words, class 2 is charged with

19   $1,000 in direct and $800 in not handling costs, for a total of $1,800. Its costs have

20   suddenly, according to this costing system, increased by $300, or 20%, even though it is

21   handled no differently than before. Class 1, on the other hand, is charged with only

22   $500 in direct and $400 in indirect costs, for a total of $900. It gets credit not only for the

23   $300 real savings that resulted from automation but for another $300 in bogus savings

24   produced by an outdated and no longer adequate costing system.

25   Real life is obviously more complex, and there are many classes of mail, all affected

26   somewhat differently. Nevertheless, this example does illustrate what has happened to

27   Periodicals costs over the past ten years. It also illustrates why the Postal Service,

28   unwilling to admit its failure to manage its workforce efficiently in an automated

29   environment, has never offered any meaningful explanation of the Periodicals cost

30   increase or been willing to undertake a serious inquiry into the matter.

1 **B. DEGEN'S POOL-BY-POOL METHOD FURTHER DISTORTS THE**
2 **RELATIONSHIP BETWEEN DIRECT AND NOT HANDLING COSTS**

3 The pool-by-pool approach to distribution of not handling costs that Degen proposes
4 causes two types of distortion. First, it inevitably leads to an even larger bias against
5 the least automated mail, which receives a large portion of its total handling at
6 platforms and opening units, the operations where employees most often are clocked in
7 when they don't handle mail. Second, it ignores all information (other than MODS
8 codes) that IOCS clerks recorded about different not handling activities. These issues
9 are discussed further in sections 1 and 2 below.

10 1. The Pool-By-Pool Approach Unfairly Attributes Excessive Not Handling Costs To
11 The Least Automated Mail.

12 As discussed above, the sharply increased not handling costs brought about by
13 automation are mostly concentrated at platforms and opening units, operations where
14 productivity is least monitored and therefore favored places to send people not needed
15 elsewhere. But those operations are also where mail that is highly presorted and
16 undergoes little automated sorting, such as Periodicals and most Standard A mail,
17 receives a large portion of its handlings. Such mail, particularly its carrier route
18 presorted component, requires mostly dock transfers and bundle sorts but little piece
19 sorting, whereas mail with little presortation spends a large proportion of its time at
20 piece sorting operations.

21 Ignoring the real reasons why so much not handling time is spent at platforms and
22 opening units, ignoring the historical relationship between the implementation of
23 automation and the rise in not handling costs, ignoring even all the information that
24 IOCS does provide about different types of not handling costs, Degen proposes simply
25 to distribute all not handling costs within each pool based only on the direct and mixed
26 mail costs within that same pool. One inevitable consequence is higher costs than ever
27 attributed to Periodicals, which receive a large portion of their handling at platforms
28 and opening units.

29 The Postal Service claims that this new methodology was intended to "address" the
30 concerns of Periodicals mailers and others about rising mail processing costs. Instead,

1   the method supports even more exaggerated claims of automation savings. The Postal

2   Service apparently has given no serious consideration to questions raised by Periodicals

3   mailers, who keep pointing out that their costs used to be much lower and that they

4   have done a lot of work themselves to reduce those costs.

5   2. Degen Ignores All Information About The Nature Of Each Type Of Not Handling
6   Activity.

7   The not handling costs that Degen distributes as mail processing costs are defined by 63

8   different IOCS activity codes, each representing a unique type of activity or inactivity.

9   These codes reflect what IOCS clerks saw sampled clerks and mailhandlers doing. They

10 are used in the traditional costing approach, which applies a number of different

11 distribution keys designed according to the nature of each activity. Degen, on the other

12 hand, ignores all this information, insisting that all that matters is the MODS cost pools

13 employees happened to be clocked into.

14 The following sections demonstrate the inadequacy of Degen's approach with regard to

15 four general categories of not handling costs: (a) class and activity specific not handling

16 costs; (b) shape specific not handling costs; (c) general overhead not handling costs; and

17 (d) not handling costs related to special services.

18 a. Class And Activity Specific Not Handling Costs.   Degen takes his reliance on pool-

19 by-pool distribution to the point of absurdity when he applies it even to costs for which

20 much more specific information is available. For example, almost $30 million in volume

21 variable costs with IOCS activity code 6231, representing not handling associated with

22 Express Mail, were observed over a large number of mail processing cost pools. No

23 reasonable person would argue that these costs should be attributed to anything but

24 Express Mail. Yet Degen, insisting that the only thing that matters is what cost pools

25 people were logged into, attributes these Express Mail specific costs over all mail

26 classes.[24] He does the same with costs in activity codes 6220 (special delivery) and 6230

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[24] In MODS offices, $22.6 million of these costs were spread over almost all the pools, again
indicating that employees were logged into one operation while working at another. Only about
half of the $22.6 million were incurred in the EXPRESS cost pool, where, by the way, many classes
other than Express Mail appear to be handled. See Tr. 6401-03, 6405,6407,6409.

1   (Registry).

2   Degen does the same with all window service and administration/support activities
3   where people performing those activities were incorrectly clocked into a MODS mail
4   processing operation. As explained in Appendix B, I identified $498.317 million of such
5   volume   variable   not   handling   costs   related   to   window   service   and
6   administration/support ($819.866 million accrued). Degen simply distributes these
7   costs within whatever mail processing cost pool employees were clocked into, ignoring
8   the much more accurate distribution keys available to the Postal Service and the
9   Commission for distributing such costs.

10   As I explained above in Section IV, consistency with Bradley's volume variability
11   analysis may require use of pool relationships to determine the volume variability
12   factor associated with each tally. It does not, however, require ignoring all information
13   recorded by IOCS clerks about what observed employees were actually doing, when
14   use of such information would produce more meaningful cost distribution. In my
15   alternative approach I apply the distribution keys appropriate for each class and
16   activity indicated by the IOCS activity codes.

17   b. Shape Specific Not Handling Costs. Degen   also   ignores   the   shape   related
18   characteristics of some not handling costs. In Docket No. R94-1, USPS witness Barker,
19   discussing the rapid increase in mail processing not handling costs, indicated that one
20   thing the Postal Service had done to improve distribution of not handling costs was to
21   isolate those directly associated with processing of, respectively, letters/cards, flats, and
22   parcels/IPPs. Activity code 5610 was used for not handling at operations dedicated to
23   letters and cards, code 5620 was similarly used for operations dedicated to flats, and
24   code 5700 for parcels/IPP's.

25   These codes are still in Degen's data base. Total volume variable not handling costs
26   were $505.781 million for code 5610, $172.679 million for code 5620, and $71.331 million
27   for code 5700.[25] Degen ignores this information and treats 5610-5700 costs like all other

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[25] Of course, in MODS offices none of these costs are limited to the pools where one would expect to

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1   not handling costs, e.g. distributing 5610 costs over many costs unrelated to letter

2   sorting, etc., thus further distorting the true cost relationships in mail processing.

3   Rather than addressing the problem of rising not handling costs, Degen throws out

4   what little progress the Postal Service had made towards a somewhat fairer distribution

5   of these costs. The appropriate distribution keys for 5610, 5620 and 5700 not handling

6   costs are, in my opinion, the direct letters and cards costs, the direct flats costs, and the

7   direct parcel/IPP costs.

8   c. General Overhead Not Handling Costs.   Degen also distributes costs that are

9   general overhead in nature, such as breaks, clocking in/out, not handling empty

10   equipment and the mixed all shapes (code 5750) costs, within each pool. Yet he has

11   conducted no study of whether these costs are causally related only to the direct and

12   mixed costs within the same pool, and I doubt that such a study would have confirmed

13   his assumptions.

14   Consider break time. An employee on break might as well be on break from any

15   operation. The fact that while on break he is logged into a given MODS operation does

16   not mean that he is needed for the mail being handled at that operation, but rather that

17   he is not needed there at that particular time. The one hour and fourteen minutes in an

18   average eight hour day spent on breaks/personal needs is far more than Moden could

19   explain in terms of need for "wash up time" or on any other basis, and can only mean

20   that there are significant blocks of time in an average processing day when facilities do

21   not need all their available employees. The employees must still be clocked in

22   somewhere, however, in order to get paid. USPS response to TW/USPS-T-4-23,

23   redirected from witness Moden.

24   This category of general overhead not handling costs represents $3,728 million in

25   accrued costs, or 28.3% of all accrued mail processing costs (see Table A-2 in Appendix

26   A for a breakdown of these costs). The existence of such large and still growing not

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find them, as can be seen from Table A-4 in Appendix A. All three codes can be found in most
MODS cost pools, reflecting again the fact that employees are not always clocked into the
operations where they are working.

1   handling costs unrelated to specific productive activities is a clear evidence of
2   considerable slack time in the postal system, reflecting an inability of USPS managers to
3   manage their workforce efficiently in the automated environment. It also constitutes an
4   independent verification of Bradley's conclusion that mail processing costs cannot be
5   100% volume variable, since a significant volume increase would (or at least should)
6   provide the Postal Service with an opportunity to get more work out of its existing
7   workforce, rather than just hiring more employees.

8   Since the Postal Service has produced no meaningful study of how facility managers
9   really plan the use of their employees' time and where people are sent when not
10   needed, little is known about the true causes for the sharp increases in these costs. For
11   this reason, the Commission should seriously consider treating even the volume
12   variable portion of these costs as institutional, until such time as the Postal Service
13   produces convincing evidence linking them to specific subclasses and special services
14   and explaining satisfactorily why these costs have grown so much in the past ten years.

15   If, however, the Commission decides that the volume variable portion of these
16   overhead costs must be attributed even in this docket, the best approach to distributing
17   them, though far from perfect, is to do what the Postal Service used to do, namely to
18   treat them as systemwide costs and distribute them proportionately over all other costs.

19   d. Not Handling Costs Related To Special Services.   Another inexplicable aspect of
20   Degen's method is that, except for the Function 4 cost pools (stations and branches), he
21   distributes no not handling costs at all to special services in MODS offices. This makes
22   no sense, since his data show direct costs related to special services being incurred by
23   employees clocked into almost all cost pools. An employee performing special services
24   while for example clocked into an opening unit presumably also spends time on
25   breaks/personal needs, clocking in/out, etc.

26   The question of how to distribute not handling costs should be decided based on the
27   nature of each type of not handling activity, not by the MODS pool employees happen
28   to be clocked into while performing the activity. Some of the not handling costs that
29   Degen apparently believes should not be distributed to special services are in fact

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1   specifically related to special services and should therefore be distributed only to those

2   services. Examples include activity codes 5020 and 6020 (P.O. Boxes), 5080 and 6080

3   (money orders), 6220 (special delivery) and 6230 (Registry). Additionally, as I show in

4   Appendix A, certain not handling activities, e.g. those with activity code 6580 (postage

5   due), have major components related to special services.

6   On the other hand, some not handling activities are not at all related to special services

7   and therefore should not be distributed to them. For example, shape related not

8   handling costs clearly are not related to special services, since the latter have no shapes

9   associated with them.

10 All these considerations are ignored by Degen, due to his total reliance on the pool-by-

11 pool approach to distributing not handling costs.

12 **C. A BETTER WAY TO DISTRIBUTE NOT HANDLING COSTS**

13 This section outlines the method I propose for distributing not handling costs. The

14 details are described in Appendix A. My method does not resolve every outstanding

15 uncertainty about the correct distribution of these costs. Not could it do so, given the

16 continuing lack of any in-depth study, which only the Postal Service itself could

17 perform, of the factors that drive these costs and have caused them to rise so much in

18 the past decade.

19 However, my method is far better than that proposed by Degen, in that I pay attention

20 to the characteristics of each type of not handling, as defined by IOCS activity codes,

21 and select the distribution key most appropriate for each type.

22 The key features of my approach are as follows:

23   (1) All not handling costs with activity codes linked to specific subclasses or special
24   services are distributed to those subclasses and services. Examples include not
25   handling costs specifically linked to Express Mail, Registry, Special Delivery,
26   P.O. Boxes and Money Orders.

27   (2) All not handling costs related to window service and administration/support
28   activities are distributed the way such costs have traditionally been distributed
29   within cost segments 3.2 and 3.3. While I reassign these costs from mail
30   processing to segments 3.2 and 3.3, the important issue is not which segment the

1   costs are listed under but how they are distributed.

2   (3) In order to avoid the severe distortions caused by Degen's pool-by-pool
3   approach, I distribute most remaining not handling costs within facility type,
4   CAG and basic function, with the exception that for some categories (e.g. breaks)
5   basic function is not available.

6   (4) I develop shape specific distribution keys to distribute the shape specific not
7   handling costs (i.e., those with activity codes 5610-5700).

8   (5) Not handling costs are distributed to special services as well as subclasses, with
9   the exception of costs related to specific shapes or empty equipment.

10   (6) I use only volume variable costs to perform all distributions.

11   Exhibit 1 shows my resulting distribution of mail processing costs. Appendix B

12   describes my proposed distribution of the window service and administration/support

13   costs that Degen misclassifies as mail processing costs.

14   **VII. CONCLUSIONS**

15   The Postal Service deserves credit for addressing the question of volume variability in

16   mail processing and challenging the long held but not credible assumption of 100%

17   variability. It also deserves credit for making available MODS data that, despite many

18   flaws, at least offer the potential for better insight in the factors that drive mail

19   processing costs.

20   However, as I have demonstrated, the Postal Service has severely misinterpreted these

21   data in its attempt to use them for cost distribution. Witness Degen's cost distribution

22   approach is based on unverified, unreasonable and in some cases clearly erroneous

23   assumptions. The many serious flaws in his methodology include:

24   (1) his implementation of a poorly designed and fundamentally biased scheme for
25   capturing mixed mail costs, which both the Commission and the Postal Service
26   itself refused, for good reasons, to rely on in Docket No. R94-1 and which Degen
27   makes worse still by applying it within individual pools;

28   (2) his insistence on distributing costs within pools, without regard to evident cost
29   relationships that exist across pools; and

30   (3) his ignoring all information, much of it relevant and important, that is available
31   in IOCS regarding the characteristics of different types of not handling costs.

32   Degen has not examined the causes of rising not handling costs. On the contrary, he

1   has taken a step backward by ignoring what little relevant information is available
2   about these costs. Nor has he addressed any of the questions raised by Periodicals
3   mailers who have seen their costs rise much faster than postal wages despite all their
4   efforts to help reduce those costs. Instead, his method uncritically assumes the
5   legitimacy of past large cost increases and then proposes to raise Periodicals costs even
6   further.

7   If the Postal Service, at long last, would take Periodicals mailers' concerns about rising
8   costs seriously and launch a real investigation into why those costs have risen so much,
9   the results might benefit more than just Periodicals mailers, by revealing the large
10   inefficiencies in today's postal system and suggesting ways to use postal employees'
11   time more efficiently. Instead, the Postal Service has chosen an approach that loads
12   even more costs onto the least automated mail, thereby avoiding unpleasant questions
13   about the efficiency of its management of its workforce and supporting its exaggerated
14   claims of automation savings.

15   In addition to pointing out the failings in Degen's methodology, I have outlined a
16   different approach to mail processing cost distribution, which is described in further
17   detail in Appendices A and B. The alternative I propose is not ideal. A completely
18   satisfactory method would require much more and better information about why postal
19   managers assign people to different positions at different times, and about the true
20   composition of mixed mail, information which only the Postal Service is in a position to
21   collect. My proposed method is far better than Degen's, however, because I have
22   avoided reliance on unverified assumptions and at the same time made use of
23   important information that Degen simply ignored.

24   As I have demonstrated, the evidence provided by the Postal Service to link most mixed
25   mail and not handling costs to specific subclasses and services in this docket is so weak
26   that it raises serious doubts whether any basis exists for attributing even the volume
27   variable portion of these costs. In particular, little is known about what really causes
28   the $3,727 million accrued ($2,733 million volume variable) costs referred to above as
29   general overhead not handling costs. All that can be said with certainty about these
30   costs is that they grew anomalously during the past ten years when the automation

1   program was being implemented. The Commission should seriously consider treating
2   these costs as institutional until the Postal Service provides more reliable information
3   about what causes them.

4   If, however, it decides that all volume variable mail processing costs should be
5   attributed, then I urge the Commission to use my alternative approach to attribute
6   Segment 3 costs.

EXHIBITS 1-6

1   ALTERNATIVE ATTRIBUTION OF MAIL PROCESSING COSTS

2   Table 1-1 on the following page shows the attribution of mail processing costs that I

3   propose to replace Degen's method.   The tables on subsequent pages show my

4   attribution, compared with Degen's, for costs incurred respectively in MODS offices,

5   NonMODS offices and BMC's. Total attribution is less than Degen's because I propose

6   to classify some costs as window service and administration/support costs (Segments

7   3.2 and 3.3). My proposed attribution of window service and administration/support

8   costs is described in Appendix B.

Table 1-1: Attributed Mail Processing Costs - All Offices ($1,000's)			
Subclass	Degen	Stralberg	Difference
First-Class:			
Letters and Parcels	4,651,743	4,705,316	53,573
Presort Letters and Parcels	1,063,109	1,004,595	(58,514)
Postal Cards	3,214	3,114	(100)
Private Mailing Cards	136,725	150,608	13,883
Presort Cards	36,425	45,625	9,200
Total First Class	5,891,215	5,909,257	18,041
Priority Mail	477,897	319,010	(158,887)
Express Mail	84,168	53,669	(30,499)
Mailgrams	74	108	34
Periodicals:			
Within County	15,159	13,582	(1,577)
Regular Rate Publications	461,712	368,436	(93,276)
Nonprofit Publications	80,740	67,815	(12,925)
Classroom Publications	5,684	3,752	(1,932)
Total Perodicals	563,295	453,585	(109,710)
Standard A:			
Single Piece Rate	78,662	76,331	(2,331)
Regular Enhanced Car. Rte.	266,254	214,768	(51,486)
Regular Other	1,545,319	1,414,263	(131,056)
Total Bulk Regular	1,811,573	1,629,031	(182,542)
Nonprofit Enhanced Car. Rte.	28,946	22,262	(6,684)
Nonprofit Other	367,511	351,599	(15,912)
Total Bulk Nonprofit	396,457	373,862	(22,596)
Total Standard A	2,286,692	2,079,223	(207,469)
Standard B:			
Parcels Zone Rate	159,880	126,123	(33,757)
Bound Printed Matter	74,506	65,574	(8,932)
Special Standard	68,491	69,568	1,077
Library Mail	16,350	15,483	(866)
Total Standard B	319,227	276,748	(42,478)
Penalty - U. S.P.S.	77,658	79,290	1,631
Free Mail	10,100	8,563	(1,536)
International Mail	209,017	197,785	(11,232)
Total All Mail	9,919,344	9,377,239	(542,105)
Special Services:			
Registry	42,163	66,952	24,789
Certified	18,473	22,932	4,459
Insurance	771	925	154
COD	1,815	2,378	563
Special Delivery	243	1,847	1,605
Special Handling	200	274	75
Other	76,063	88,212	12,149
Total Special Services	139,728	183,521	43,793
Total Volume Variable	10,059,072	9,560,760	(498,312)

Table 1-2: Attributed Mail Processing Costs - MODS ($1,000's)			
Subclass	Degen	Stralberg	Difference
First-Class:			
Letters and Parcels	3,853,315	3,890,026	36,711
Presort Letters and Parcels	847,751	787,825	(59,926)
Postal Cards	2,279	2,177	(101)
Private Mailing Cards	111,759	124,063	12,304
Presort Cards	28,718	37,292	8,574
Total First Class	4,843,822	4,841,384	(2,438)
Priority Mail	410,462	255,199	(155,263)
Express Mail	63,591	40,391	(23,200)
Mailgrams	74	108	34
Periodicals:			
Within County	10,018	8,492	(1,526)
Regular Rate Publications	354,199	272,147	(82,052)
Nonprofit Publications	62,875	50,460	(12,415)
Classroom Publications	3,459	2,092	(1,367)
Total Perodicals	430,551	333,191	(97,360)
Standard A:			
Single Piece Rate	54,294	52,031	(2,263)
Regular Enhanced Car. Rte.	169,041	133,672	(35,369)
Regular Other	1,106,751	983,411	(123,340)
Total Bulk Regular	1,275,792	1,117,084	(158,708)
Nonprofit Enhanced Car. Rte.	19,716	15,464	(4,252)
Nonprofit Other	287,179	269,902	(17,277)
Total Bulk Nonprofit	306,895	285,366	(21,529)
Total Standard A	1,636,981	1,454,481	(182,500)
Standard B:			
Parcels Zone Rate	64,010	36,783	(27,227)
Bound Printed Matter	28,846	18,998	(9,848)
Special Standard	21,379	15,488	(5,891)
Library Mail	6,157	4,280	(1,877)
Total Standard B	120,392	75,550	(44,842)
Penalty - U. S.P.S.	56,303	58,562	2,259
Free Mail	7,400	5,520	(1,880)
International Mail	173,427	162,633	(10,794)
Total All Mail	7,743,003	7,227,019	(515,984)
Special Services:			
Registry	27,011	39,174	12,163
Certified	5,684	7,149	1,464
Insurance	133	298	165
COD	508	726	219
Special Delivery	243	1,304	1,061
Special Handling	85	122	37
Other	47,113	57,094	9,981
Total Special Services	80,776	105,867	25,091
Total Volume Variable	7,823,779	7,332,885	(490,894)

Table 1-3: Attributed Mail Processing Costs - NonMODS ($1,000's)			
Subclass	Degen	Stralberg	Difference
First-Class:			
Letters and Parcels	794,125	808,605	14,480
Presort Letters and Parcels	214,435	215,522	1,087
Postal Cards	935	936	1
Private Mailing Cards	24,847	26,376	1,529
Presort Cards	7,707	8,282	575
Total First Class	1,042,049	1,059,721	17,672
Priority Mail	65,920	61,803	(4,117)
Express Mail	20,558	13,098	(7,460)
Mailgrams	0	0	0
Periodicals:			
Within County	5,045	4,991	(54)
Regular Rate Publications	91,108	83,430	(7,678)
Nonprofit Publications	14,266	14,354	88
Classroom Publications	1,311	1,148	(163)
Total Perodicals	111,730	103,924	(7,806)
Standard A:			
Single Piece Rate	12,912	12,463	(449)
Regular Enhanced Car. Rte.	80,272	66,687	(13,585)
Regular Other	299,550	295,561	(3,989)
Total Bulk Regular	379,822	362,249	(17,573)
Nonprofit Enhanced Car. Rte.	7,710	5,518	(2,192)
Nonprofit Other	60,700	62,442	1,742
Total Bulk Nonprofit	68,410	67,961	(449)
Total Standard A	461,144	442,673	(18,471)
Standard B:			
Parcels Zone Rate	19,634	16,375	(3,259)
Bound Printed Matter	12,908	11,320	(1,588)
Special Standard	8,471	8,580	109
Library Mail	1,758	1,587	(171)
Total Standard B	42,771	37,862	(4,909)
Penalty - U. S.P.S.	17,070	16,861	(209)
Free Mail	726	768	42
International Mail	6,461	6,221	(240)
Total All Mail	1,768,429	1,742,930	(25,499)
Special Services:			
Registry	14,973	27,212	12,239
Certified	12,789	15,752	2,963
Insurance	630	605	(25)
COD	1,307	1,650	343
Special Delivery	0	537	537
Special Handling	115	152	37
Other	28,806	30,826	2,020
Total Special Services	58,620	76,734	18,114
Total Volume Variable	1,827,049	1,819,664	(7,385)

Table 1-4: Attributed Mail Processing Costs - BMC's ($1,000's)			
Subclass	Degen	Stralberg	Difference
First-Class:			
Letters and Parcels	4,303	6,684	2,381
Presort Letters and Parcels	923	1,248	325
Postal Cards	0	0	0
Private Mailing Cards	119	169	50
Presort Cards	0	50	50
Total First Class	5,344	8,152	2,807
Priority Mail	1,515	2,009	493
Express Mail	19	180	161
Mailgrams	0	0	0
Periodicals:			
Within County	96	99	3
Regular Rate Publications	16,405	12,859	(3,546)
Nonprofit Publications	3,599	3,001	(598)
Classroom Publications	914	512	(403)
Total Perodicals	21,015	16,471	(4,544)
Standard A:			
Single Piece Rate	11,456	11,837	381
Regular Enhanced Car. Rte.	16,941	14,408	(2,533)
Regular Other	139,018	135,290	(3,728)
Total Bulk Regular	155,959	149,698	(6,261)
Nonprofit Enhanced Car. Rte.	1,520	1,280	(240)
Nonprofit Other	19,632	19,255	(377)
Total Bulk Nonprofit	21,152	20,535	(618)
Total Standard A	188,567	182,070	(6,497)
Standard B:			
Parcels Zone Rate	76,236	72,965	(3,271)
Bound Printed Matter	32,752	35,256	2,504
Special Standard	38,641	45,500	6,859
Library Mail	8,435	9,617	1,182
Total Standard B	156,064	163,337	7,273
Penalty - U. S.P.S.	4,285	3,866	(419)
Free Mail	1,973	2,275	302
International Mail	29,129	28,931	(198)
Total All Mail	407,912	407,290	(622)
Special Services:			
Registry	179	566	387
Certified	0	32	32
Insurance	9	23	14
COD	0	1	1
Special Delivery	0	6	6
Special Handling	0	1	1
Other	144	292	148
Total Special Services	332	921	589
Total Volume Variable	408,244	408,211	(33)

Table 2-1: Modified Attribution Of BY96 Segment 3 Costs ($1,000's)[1]			
	3.1 Mail Processing	3.2 Window Service	3.3 Admin./ Support	Total Segment 3
First-Class:				
Letters & Parcels	4,824,580	515,633	482,452	5,822,665
Presort Letters & Parcels	1,022,013	22,798	143,598	1,188,409
Single Piece Cards	157,814	33,190	19,016	210,020
Presort Cards	47,363	792	5,362	53,518
Total First Class	6,051,771	572,412	650,429	7,274,612
Priority Mail	317,269	42,667	29,499	389,435
Express Mail	53,623	23,797	52,807	130,227
Mailgrams	114	0	17	130
Periodicals:				
Within County	13,630	473	2,747	16,849
Regular Rate Publications	374,072	2,260	41,143	417,474
Nonprofit Publications	69,132	243	10,207	79,582
Classroom Publications	3,822	0	387	4,209
Total Perodicals	460,656	2,975	54,483	518,115
Standard A:				
Single Piece Rate	73,726	2,481	6,582	82,790
Regular Enhanced Car. Rte.	205,602	5,953	67,013	278,568
Regular Other	1,360,059	23,106	151,132	1,534,297
Total Bulk Regular	1,565,661	29,059	218,145	1,812,865
Nonprofit Enhanced Car. Rte.	21,255	980	5,246	27,481
Nonprofit Other	338,336	8,409	37,583	384,327
Total Bulk Nonprofit	359,590	9,389	42,828	411,808
Total Standard A	1,998,978	40,930	267,555	2,307,463
Standard B:				
Parcels Zone Rate	122,377	7,746	12,225	142,348
Bound Printed Matter	63,641	641	7,330	71,612
Special Standard	68,161	3,296	6,082	77,540
Library Mail	15,091	102	1,170	16,363
Total Standard B	269,270	11,786	26,807	307,863
Penalty - U. S.P.S.	103,620	14,202	10,156	127,977
Free Mail	8,926	187	744	9,857
International Mail	209,994	24,648	21,895	256,537
Total All Mail	9,474,221	733,603	1,114,392	11,322,216
Special Services:				
Registry	31,606	12,087	4,903	48,596
Certified	23,209	39,092	11,452	73,754
Insurance	937	11,938	851	13,725
COD	2,406	3,669	878	6,953
Special Delivery	49	153	110	312
Money Orders	0	82,983	4,139	87,123
Stamped Envelopes	0	1,361	67	1,428
Special Handling	277	548	41	867
Post office box	0	69,153	7,163	76,317
Other	88,878	10,208	10,265	109,351
Total Special Services	147,362	231,193	39,870	418,425
Total Volume Variable	9,621,583	964,796	1,154,262	11,740,641
Other	2,805,963	1,059,160	850,338	4,715,462
Total Accrued Costs	12,427,547	2,023,956	2,004,601	16,456,103

[1] Sources: Seg. 3.1: Table A-9. Seg 3.2: Table B-3. Seg. 3.3: Table B-7.

Table 3-1: Attributed BY96 Clerk & Mailhandler Wage Costs ($1,000's)			
	USPS Proposal	Stralberg	Difference
First-Class:			
Letters & Parcels	5,566,303	5,822,665	256,362
Presort Letters & Parcels	1,194,689	1,188,409	(6,280)
Single Piece Cards	183,379	210,020	26,641
Presort Cards	41,349	53,518	12,169
Total First Class	6,985,720	7,274,612	288,892
Priority Mail	540,853	389,435	(151,418)
Express Mail	112,436	130,227	17,791
Mailgrams	88	130	42
Periodicals:			
Within County	17,388	16,849	(539)
Regular Rate Publications	496,960	417,474	(79,486)
Nonprofit Publications	88,934	79,582	(9,352)
Classroom Publications	6,005	4,209	(1,796)
Total Perodicals	609,287	518,115	(91,172)
Standard A:			
Single Piece Rate	82,069	82,790	721
Regular Enhanced Car. Rte.	305,921	278,568	(27,353)
Regular Other	1,605,824	1,534,297	(71,527)
Total Bulk Regular	1,911,745	1,812,865	(98,880)
Nonprofit Enhanced Car. Rte.	32,442	27,481	(4,961)
Nonprofit Other	385,597	384,327	(1,270)
Total Bulk Nonprofit	418,039	411,808	(6,231)
Total Standard A	2,411,853	2,307,463	(104,390)
Standard B:			
Parcels Zone Rate	168,661	142,348	(26,313)
Bound Printed Matter	76,322	71,612	(4,710)
Special Standard	72,257	77,540	5,283
Library Mail	16,453	16,363	(90)
Total Standard B	333,693	307,863	(25,830)
Penalty - U. S.P.S.	112,772	127,977	15,205
Free Mail	11,042	9,857	(1,185)
International Mail	252,743	256,537	3,794
Total All Mail	11,370,487	11,322,216	(48,271)
Special Services:			
Registry	31,718	48,596	16,878
Certified	63,305	73,754	10,449
Insurance	12,818	13,725	907
COD	5,968	6,953	985
Special Delivery	216	312	96
Money Orders	82,277	87,123	4,846
Stamped Envelopes	1,341	1,428	87
Special Handling	754	867	113
Post office box	65,299	76,317	11,018
Other	89,524	109,351	19,827
Total Special Services	353,220	418,425	65,205
Total Volume Variable	11,723,707	11,740,641	16,934
Other	4,732,392	4,715,462	(16,930)
Total Costs	16,456,099	16,456,103	4

1   DIRECT, COUNTED, UNCOUNTED AND EMPTY ITEM COSTS

2   Table 4-1 shows the volume variable BY96 costs associated with respectively direct

3   (identical), counted mixed, uncounted mixed and empty items, for each item type.

4   Tables 4-2 through 4-4 on the subsequent pages show the corresponding information

5   for, respectively, MODS offices, NonMODS offices and BMC's. The tables separate top-

6   piece-rule and non-top-piece-rule items. The direct costs shown for top-piece-rule items

7   include all top-piece-rule tallies. None of these items were counted. In total, there were

8     $41.537 million in counted item costs and $66.012 million in uncounted mixed item

9   costs, i.e. 38.6% of eligible items were counted.

10   The estimates of counted item costs are from datasets TW28emdr, TW28enmr and

11   TW28ebmr, provided by Degen in USPS LR-H-296. Other estimates are from the data

12   sources described in Appendix A.

Table 4-1: Volume Variable Item Costs - All Offices ($1,000's)					
Item Type	Direct	Mixed		Total Non-Empty	Empty
		Counted	Uncounted		
Top Piece Rule:					
BUNDLE	587,930	N.A.	5,308	593,238	N.A.
TRAY-FT	93,243	N.A.	6,399	99,642	50,510
TRAY-LT	295,238	N.A.	14,446	309,684	91,861
Total Top Piece Rule:	976,410	N.A.	26,154	1,002,564	142,371
Non-Top Piece Rule					
CON-CON	407	209	1,292	1,926	5,061
TRAY-P.	1,017	1,317	456	2,929	2,813
PALLET	8,746	1,926	4,374	15,099	8,120
OTHITEM	1,776	1,063	3,081	5,941	8,011
SCK-BL&O	1,112	2,569	2,706	6,389	2,061
SCK-GREN	539	2,688	2,933	6,192	5,798
SCK-OR&Y	996	8,390	5,846	15,278	7,586
SCK-BRWN	8,853	3,643	1,535	14,098	7,668
SCK-WH#1	5,153	6,472	3,260	14,911	12,639
SCK-WH#2	6,732	5,529	5,687	18,100	14,429
SCK-WH#3	17,393	3,070	2,879	23,492	8,472
SCK-OTHR	2,058	1,415	2,784	6,275	3,382
SCK-INTL	356	3,244	3,027	6,628	943
Total Non-Top Piece Rule	55,139	41,537	39,859	137,256	86,985
Total All Items	1,031,549	41,537	66,012	1,139,820	229,356

Table 4-2: Volume Variable Item Costs - MODS ($1,000's)					
Item Type	Direct	Mixed		Total Non-Empty	Empty
		Counted	Uncounted		
Top Piece Rule:					
BUNDLE	445,969	N.A.	3,619	449,588	N.A.
TRAY-FT	79,928	N.A.	5,621	85,549	43,093
TRAY-LT	264,595	N.A.	13,245	277,840	78,968
Total Top Piece Rule	790,493	N.A.	22,484	812,977	122,061
Non-Top Piece Rule:					
CON-CON	339	133	1,143	1,633	4,150
TRAY-P.	862	1,203	368	2,573	2,589
PALLET	4,835	1,021	3,469	9,377	4,725
OTHITEM	867	542	1,686	3,116	6,071
SCK-BL&O	745	2,079	2,706	5,531	1,973
SCK-GREN	466	2,357	2,602	5,457	4,537
SCK-OR&Y	755	7,391	5,565	13,756	6,964
SCK-BRWN	5,959	3,182	1,261	10,468	6,072
SCK-WH#1	2,539	2,232	1,557	6,354	5,527
SCK-WH#2	3,257	3,181	2,965	9,554	10,069
SCK-WH#3	7,208	1,620	1,896	10,873	4,972
SCK-OTHR	674	615	1,553	2,859	2,289
SCK-INTL	133	2,518	3,027	5,680	930
Total Non-Top Piece Rule	28,639	28,074	29,797	87,232	60,868
Total All Items	819,132	28,074	52,281	900,209	182,929

Table 4-3: Volume Variable Item Costs - NonMODS ($1,000's)					
Item Type	Direct	Mixed		Total Non-Empty	Empty
		Counted	Uncounted		
Top Piece Rule:					
BUNDLE	128,635	N.A.	653	129,287	N.A.
TRAY-FT	12,033	N.A.	430	12,463	6,752
TRAY-LT	25,341	N.A.	854	26,195	12,459
Total Top Piece Rule	166,009	N.A.	1,936	167,945	19,211
Non-Top Piece Rule:					
CON-CON	68	76	88	232	911
TRAY-P.	44	88	0	132	105
PALLET	823	194	71	1,087	855
OTHITEM	802	403	1,109	2,315	1,420
SCK-BL&O	367	490	0	857	88
SCK-GREN	38	274	269	580	1,261
SCK-OR&Y	233	905	280	1,419	590
SCK-BRWN	1,368	275	0	1,643	1,224
SCK-WH#1	329	497	427	1,253	1,580
SCK-WH#2	292	905	985	2,181	2,034
SCK-WH#3	1,780	397	105	2,283	2,171
SCK-OTHR	241	0	269	509	949
SCK-INTL	0	0	0	0	0
Total Non-Top Piece Rule	6,384	4,504	3,603	14,491	13,188
Total All Items	172,393	4,504	5,540	182,436	32,399

Table 4-4: Volume Variable Item Costs - BMC's ($1,000's)					
Item	Direct	Mixed		Total	Empty
Type		Counted	Uncounted	Non-Empty	
Top Piece Rule:					
BUNDLE	13,326	N.A.	1,037	14,363	N.A.
TRAY-FT	1,281	N.A.	349	1,630	666
TRAY-LT	5,302	N.A.	347	5,649	433
Total Top Piece Rule	19,909	N.A.	1,733	21,642	1,099
Non-Top Piece Rule:					
CON-CON	0	0	61	61	0
TRAY-P.	111	26	87	224	120
PALLET	3,088	711	835	4,634	2,540
OTHITEM	107	118	286	510	520
SCK-BL&O	0	0	0	0	0
SCK-GREN	35	57	62	154	0
SCK-OR&Y	8	95	0	103	32
SCK-BRWN	1,527	186	274	1,987	372
SCK-WH#1	2,285	3,743	1,276	7,304	5,533
SCK-WH#2	3,184	1,444	1,737	6,365	2,326
SCK-WH#3	8,404	1,053	878	10,336	1,329
SCK-OTHR	1,143	800	963	2,907	145
SCK-INTL	223	726	0	949	12
Total Non-Top Piece Rule	20,115	8,959	6,458	35,533	12,929
Total All Items	40,024	8,959	8,191	57,175	14,028

1   DIRECT & COUNTED ITEM COSTS BY MAJOR CLASS

2   Tables 5-1 through 5-3 show the volume variable BY96 costs associated with,

3   respectively, direct (identical) and counted mixed non-top-piece-rule item costs broken

4   down by major class category. The estimates of counted item costs are from datasets

5   TW28emdr, TW28enmr and TW28ebmr, provided by Degen in USPS LR-H-296. There

6   is a small discrepancy in the estimated relative amounts of direct and counted item

7   costs between the tables below and those shown in Exhibit 4, due to a discrepancy in the

8   counted item data provided by Degen.[1] However, this discrepancy does not affect the

9   method I propose for distributing mixed mail costs in this docket.

Table 5-1: Direct & Counted Item Costs In MODS Offices				
(Volume Variable Costs - Non-Top Piece Rule Items)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	5,347	18.70%	2,661	9.46%
Periodicals	3,744	13.09%	8,638	30.72%
Standard A	4,849	16.96%	14,317	50.91%
Standard B	1,213	4.24%	714	2.54%
Priority	7,946	27.79%	1,242	4.42%
Express	1,856	6.49%	584	2.08%
Other	3,638	12.72%	(36)	-0.13%
Total	28,594	100.00%	28,119	100.00%

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[1] This discrepancy has the following history. Degen originally, in response to TW/USPS-12-28e, provided counted item costs by cost pool, item type and subclass. Time Warner asked, in TW/USPS-5, why it appeared that the international sacks counted in MODS offices contained no international mail. Degen responded by saying that there was a mistake in his original counted item response, that in fact many more international sacks had been counted, and that the corrected information would be filed in USPS LR-H-296. Data sets TW28emdr, TW28ebmr and TW28enmr from that library reference give estimates of total counted item costs by cost pool and item type, and a further breakdown of the counted item costs for each pool and item type by subclass. The two do not match completely, particularly for international sacks. Subtracting the counted item costs given by subclass from the corresponding combined direct and counted item data in the IOCS data base gives a small negative direct cost for international mail, indicating that Degen's revised response must have overstated the counting of international sacks.

Table 5-2: Direct & Counted Item Costs NonMODS Offices (Volume Variable Costs - Non-Top Piece Rule Items)				
Subclass	Counted		Direct:	
	$1,000's	Percent	$1,000's	Percent
First	867	19.25%	284	4.45%
Periodicals:	680	15.11%	1,578	24.71%
Standard A:	926	20.56%	3,882	60.80%
Standard B:	451	10.02%	(0)	-0.00%
Priority	1,211	26.89%	350	5.48%
Express	364	8.07%	291	4.56%
Other	5	0.10%	0	0.00%
Total	4,504	100.00%	6,384	100.00%

Table 5-3: Direct & Counted Item Costs In BMC's (Volume Variable Costs - Non-Top Piece Rule Items)				
Subclass	Counted		Direct	
	$1,000's	Percent	$1,000's	Percent
First	46	0.51%	69	0.34%
Periodicals	704	7.86%	3,915	19.46%
Standard A	2,745	30.63%	12,588	62.58%
Standard B	3,460	38.62%	1,966	9.77%
Priority	0	0.00%	0	0.00%
Express	0	0.00%	0	0.00%
Other	2,004	22.37%	1,577	7.84%
Total	8,960	100.00%	20,115	100.00%

1   COSTS OF LOOSE ITEMS AND ITEMS IN CONTAINERS AT MODS COST
2   POOLS

3   Tables 6-1 and 6-2 on the following pages show how the direct costs of loose items and

4   the costs of items-in-containers, respectively, are spread over MODS cost pools for

5   different item types. Comparison of the two tables show clearly that loose items are

6   mostly handled at operations different from those that predominantly handle

7   containers with the same types of items in them. It is therefore <u>inappropriate</u> to

8   distribute items-in-container costs based on direct item costs within cost pools.

9   Each table summarizes at the bottom the total handling costs per item type and the

10   portion of those costs that are incurred at platforms and opening units, defined to

11   include MODS cost pools Bulk PR, CancMPP, OpBulk, OpPref, Platfrm, Pouching,

12   Sacks_H and Sacks_M. For each item type, the proportion of items-in-container costs

13   incurred at platforms or opening units is significantly larger than the corresponding

14   proportion for direct item costs. The last column in each table represents "other items,"

15   which here means all non-top-piece-rule items (sacks, pallets, parcel trays, etc.).

Table 6-1: Direct Volume Variable Item Costs Per MODS Cost Pool & Item Type ($1,000's)								
Cost Pool	Cards	Letters	Flats	IPP's	Parcels	Bundles	Flat Trays	Letter Trays	Other Items
Bcs/	4,021	209,359	823	174	19	61,535	5,020	66,569	268
Express	28	360	6,962	231	1,432	310	0	97	1,000
Fsm/	158	8,360	334,521	1,309	1,704	28,501	23,929	664	358
Lsm/	20,747	374,633	2,556	369	171	36,527	1,338	22,184	260
Manf	252	10,886	204,992	1,547	3,651	26,280	7,228	637	711
Manl	27,992	523,223	20,554	2,096	2,346	82,899	2,758	24,021	471
Manp	23	576	1,430	1,258	4,624	640	63	264	362
Mecparc	55	235	348	160	1,890	387	0	0	215
Ocr/	1,207	58,324	675	92	100	17,693	1,423	18,282	93
Priority	28	1,067	12,737	2,621	20,249	509	70	325	2,448
Spbs Oth	91	1,173	4,075	6,243	3,405	13,944	519	256	1,843
Spbsprio	0	68	4,273	3,310	6,509	1,442	204	104	893
Busreply	389	3,248	630	104	215	1,381	116	167	49
Intl	747	16,961	5,045	1,183	4,419	2,887	602	1,656	2,288
Ld15	5,673	124,721	1,426	0	0	28,565	1,763	34,268	0
Ld41	0	4,764	28	0	0	1,183	39	710	31
Ld42	19	308	450	0	24	75	14	60	0
Ld43	2,229	72,130	41,874	6,421	20,342	24,099	5,840	7,770	1,855
Ld44	736	37,851	11,759	733	1,321	5,806	481	873	170
Ld48 Exp	0	16	226	2	23	0	0	0	0
Ld48 Oth	123	2,003	533	76	324	554	180	201	59
Ld48_Ssv	53	1,409	741	99	213	361	53	80	0
Ld49	9,156	69,095	28,505	1,059	2,187	2,736	950	2,418	41
Ld79	291	3,268	797	44	330	3,645	201	2,209	1,861
Mailgram	0	0	0	0	0	0	0	0	41
Registry	44	405	203	32	79	158	0	30	159
Rewrap	109	2,184	361	3	462	57	0	169	0
1Bulk Pr	25	636	106	0	123	558	28	821	33
1Cancmpp	1,723	50,499	12,705	2,249	2,259	8,385	3,027	5,795	551
1Eeqmt	0	216	170	0	62	259	56	0	60
1Misc	137	4,469	1,421	207	803	1,225	376	1,439	283
1Opbulk	338	10,661	10,392	2,431	2,282	31,589	2,968	8,965	3,790
1Oppref	524	31,811	26,630	16,478	12,879	34,113	6,523	26,660	7,417
1Platfrm	79	6,462	6,040	1,407	8,288	6,830	4,844	7,407	13,562
1Pouchng	785	13,955	13,754	10,269	7,254	16,419	7,510	23,845	5,299
1Sacks_H	38	905	1,193	414	2,485	3,281	708	2,341	4,375
1Sacks_M	0	64	544	61	1,002	365	475	910	4,253
1Scan	0	593	754	369	2,710	112	595	2,045	1,561
1Support	138	2,684	516	87	230	661	29	312	53
Ld48_Adm	0	0	0	0	0	0	0	0	0
Support Oth.	0	206	0	0	0	0	0	42	0
Total	77,957	1,649,789	760,750	63,138	116,415	445,969	79,928	264,595	56,713
Platforms/ Open. Units	3,512	114,993	71,364	33,310	36,572	101,540	26,083	76,744	39,281
Percent	4.51%	6.97%	9.38%	52.76%	31.42%	22.77%	32.63%	29.00%	69.26%

Cost Pool	Cards	Letters	Flats	IPP's	Parcels	Bundles	Flat Trays	Letter Trays	Other Items
Table 6-2: Volume Variable Item-In-Container Costs At MODS Cost Pools ($1,000's)									
Bcs/	0	3,243	66	0	0	171	367	16,389	169
Express	0	21	116	42	69	0	28	61	501
Fsm/	0	138	4,015	170	180	925	9,183	179	382
Lsm/	265	1,448	149	66	0	336	196	3,807	147
Manf	1	123	5,339	239	168	1,314	5,318	503	340
Manl	22	1,357	520	65	8	864	1,394	7,740	454
Manp	1	22	66	252	592	74	93	111	278
Mecparc	0	55	0	52	55	55	0	0	231
Ocr/	106	874	0	45	0	90	222	3,399	98
Priority	40	114	281	413	2,168	69	114	188	1,475
Spbs Oth	27	119	487	672	752	1,358	66	106	758
Spbsprio	0	3	204	748	1,177	168	150	105	927
Busreply	0	25	88	129	76	54	56	110	8
Intl	4	58	249	297	741	127	368	548	2,309
Ld15	0	1,881	0	0	0	0	0	15,211	0
Ld41	0	34	0	0	0	0	0	404	0
Ld42	0	0	10	0	0	10	0	38	0
Ld43	81	1,596	1,363	624	2,291	717	2,689	5,111	1,047
Ld44	6	48	110	81	28	0	187	305	2
Ld48 Exp	0	0	0	0	0	0	1	0	0
Ld48 Oth	1	34	19	4	49	23	162	222	6
Ld48_Ssv	2	29	16	0	17	6	31	20	14
Ld49	0	293	280	0	0	43	348	1,030	0
Ld79	0	52	0	0	0	0	0	537	285
Mailgram	0	0	0	0	0	0	0	0	0
Registry	0	4	7	32	84	9	9	58	342
Rewrap	43	0	68	95	19	55	63	55	0
1Bulk Pr	0	0	8	0	0	34	60	381	18
1Cancmpp	212	4,625	1,244	612	270	83	1,055	2,455	614
1Eeqmt	0	5	56	121	68	0	165	266	865
1Misc	63	269	251	108	32	413	577	1,387	125
1Opbulk	23	868	2,355	756	966	1,770	2,836	5,461	1,933
1Oppref	90	2,500	3,186	1,841	2,157	3,122	6,338	18,284	5,083
1Platfrm	215	3,736	3,650	3,263	13,307	5,446	17,261	27,143	22,013
1Pouchng	5	1,635	2,156	1,075	1,137	1,317	7,117	18,136	3,339
1Sacks_H	0	292	400	259	1,615	560	1,507	2,605	3,618
1Sacks_M	0	169	122	63	255	189	389	825	899
1Scan	0	196	60	177	435	56	647	1,964	1,129
1Support	0	71	107	38	81	20	128	248	57
Ld48_Adm	0	0	0	0	0	0	0	0	0
Support Oth.	0	0	0	0	0	0	0	0	0
Total	1,206	25,938	27,050	12,339	28,796	19,481	59,124	135,391	49,464
Platforms/ Open. Units	544	13,825	13,122	7,868	19,706	12,521	36,563	75,291	37,517
Percent	45.11%	53.30%	48.51%	63.77%	68.43%	64.28%	61.84%	55.61%	75.85%

1   **APPENDIX A: DATA SOURCES AND METHODOLOGY**

2   This appendix explains in detail the methodology used to develop the alternative mail

3   processing cost distribution presented in Exhibit 1. Section 1 explains how I extracted

4   from the IOCS data base the information needed to develop an alternative distribution

5   method, as well as various exhibits presented with this testimony. Section 2 describes

6   various spreadsheets used to perform my calculations. Section 3 describes how IOCS

7   tally costs are translated to corresponding volume variable costs in my methodology.

8   Section 4 describes my use of CAG and basic function to disaggregate mail processing

9   costs. Section 5 describes the methodology I propose be used in this docket for

10   distributing mixed mail and not handling mail processing costs. Section 6 describes

11   some further adjustments I applied to the distributed mail processing costs, similar to

12   the adjustments in witness Alexandrovich's workpapers. My proposed treatment of not

13   handling costs associated with window service and administration/support activities is

14   described in Appendix B.

15   **1. SAS Programs Used To Access The IOCS Data Base**

16   I started with a series of SAS runs, documented in MPA LR-H-1. The library reference

17   contains the SAS program listings, LOG files and resulting ASCII output for each

18   program. There are a total of 15 programs and 15 output files, five for each of the three

19   facility types. They are named xCAGBFy, where x is either B, M or N, representing

20   BMC's, MODS offices and NonMODS offices respectively, and y is one of the letters D,

21   M, E, P or N, denoting respectively (1) direct tallies; (2) mixed mail and empty item

22   tallies; (3) empty item tallies only; (4) unidentified container tallies; and (5) not handling

23   tallies. The contents of each file type are described below. Each file consists of lines

24   representing all encountered combinations of the relevant variables along with the

25   IOCS tally costs for each such combination.

26   Direct Costs. Files xCAGBFD.txt contain entries representing all direct costs classified

27   as mail processing costs by Degen, including costs of top piece rule items and counted

28   items. Each line represents a unique combination of the following variables: (1) CAG;

29   (2) basic function; (3) cost pool; (4) subclass or special service; and (5) Type, where Type

30   can be any of the following:

31   (1) unspecified;

1   (2) a specific shape (card, letter, flat, IPP or parcel);

2   (3) an item type as defined in USPS LR-H-49 (bundle, one of three tray types, one of

3   ten sack types, pallet, or other item); or

4   (4) a container type as defined at page 91 in USPS LR-H-49.

5   The subclass codes include mixed mail codes 5300-5345, resulting from some counted

6   items.

7   <u>Mixed Mail Costs</u>. Files xCAGBFM.txt include costs of all mixed uncounted items,

8   empty items, and identified mixed mail containers. Each line represents a combination

9   of: (1) CAG; (2) basic function; (3) cost pool; (4) activity code; (5) Handling; and (6)

10   Type, where the variable Type is always either a shape or item type and Handling is a

11   container type for mixed mail container entries and equivalent to Type for items not in

12   containers.

13   <u>Empty Item Costs</u>. Files xCAGBFE.txt are subsets of the corresponding xCAGBFM.txt

14   files, containing only entries representing empty item costs.

15   <u>Unidentified Container Costs.</u>   Files xCAGBFP.txt contain the costs of unidentified

16   containers. Each line is a unique combination of: (1) CAG; (2) basic function; (3) cost

17   pool; (4) activity code; and (5) container type.

18   <u>Not Handling Costs.</u>   Files xCAGBFN.txt contain all costs defined by Degen as

19   mail processing not handling costs, including some costs traditionally classified as

20   window service and administrative costs. Each line is a unique combination of: (1)

21   CAG; (2) basic function; (3) cost pool; and (4) activity code.

22   **2. Spreadsheets**

23   Data from the SAS outputs described above were imported into spreadsheets in order

24   to be able to perform operations on individual entries. The following five spreadsheets

25   were used to develop the alternative distribution of Segment 3 costs described in

26   Exhibits 1-3:

27   (1) MODS computes the direct costs per subclass and distributes mixed mail and

28   not handling costs for MODS offices.

29   (2) MODSMX computes and tabulates mixed mail costs in MODS offices.

30   (3) MODSNH computes all not handling costs in MODS offices and tabulates those

1   that will be distributed as mail processing, window service and administrative
2   costs respectively. It also performs my proposed distribution of sub-segments
3   3.2 and 3.3 as well as total Segment 3 costs.

4   (4) NonMODS performs all necessary computations for NonMODS offices.

5   (5) BMC performs all necessary computations for BMC's.

6 Additionally, spreadsheet COUNTED was used to develop the information relating to
7 counted items in Exhibits 4 and 5.

8 My spreadsheets are included in Library Reference TW LR-H-1. My analysis was
9 performed using Quattro for Windows version 5 spreadsheets. To facilitate their use,
10 the library reference also includes Excel versions of each spreadsheet.

11 **3. IOCS Tally Costs And Volume Variable Costs**

12 My calculations start by computing, for each cost combination produced by the SAS
13 programs described above, the volume variable costs corresponding to the tally costs
14 for the given combination. Volume variable costs are computed by multiplying the
15 tally costs with the ratio of accrued costs to tally costs for the given cost pool and then
16 applying the variability factors determined by witness Bradley for each pool. I use
17 volume variable costs in all subsequent calculations.[1]

18 I distribute volume variable mixed mail and not handling costs across cost pools, rather
19 than within costs pools, for reasons explained earlier in this testimony. It should be
20 understood that even Degen distributes some costs across pools.[2] However, his
21 method uses IOCS tally dollars until the end and only then, after distributing all mixed
22 mail and not handling costs, does he re-weight to cost pool dollars and apply volume
23 variability factors. This approach appears to be inappropriate, for the following
24 reasons.

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[1] In the case of NonMODS facilities, conversion to volume variable costs from tally costs requires only multiplication with a single factor, since Bradley did not analyze individual cost pools in those offices. For those offices I therefore use tally costs through most of my calculations, converting to volume variable costs only in the final step.

[2] Degen distributes across pools whenever a distributing dataset contains no data in a given cell, which occurs often in the case of mixed mail. Additionally, he always distributes certain cost pools (e.g. MISC, EEQMT) across all pools, and he distributes mixed mail costs at platforms across a set of pools that includes opening units. LR-H-146, part II.B.

1   First, Bradley's variability factors differ substantially among pools. Distribution across

2   pools, before applying these factors, implies a distribution over costs that are assumed

3   to be partly fixed, whereas in other parts of the Postal Service's costing methodology

4   volume variable costs are generally distributed upon other volume variable costs.

5   Second, tally costs differ substantially from accrued costs in many pools.[3] If the accrued

6   costs are the "true" pool costs, then the tally costs are not the true costs, and a

7   distribution based on them will necessarily cause distortions of the true cost

8   relationships. To avoid these problems, I use only volume variable costs, as defined by

9   Bradley's variability factors applied to the accrued costs (according to MODS and PIRS)

10   within each pool.

11   **4. Use Of CAG And Basic Function**

12   As explained earlier in this testimony, I conclude that distributing mixed mail and not

13   handling costs within each of Degen's numerous cost pools causes severe distortions by

14   ignoring many relevant cross-pool cost relationships. For this reason, I distribute all

15   mixed mail and most not handling costs within CAG and basic function, rather than

16   within pool. Application of this approach to the three facility types is explained below.

17   <u>a. Distribution Within CAG.</u>

18   The MODS IOCS data show costs belonging to CAG's A, B, C and D. However, over

19   90% of the costs are classified as CAG A, with most of the rest being CAG B. Due to the

20   limited amount of CAG C and D costs in these facilities, I combine the data for CAG's B,

21   C and D into one group.

22   BMC's constitute a separate CAG, and the BMC data therefore cannot be further broken

23   down by CAG.

24   I found CAG's B through H represented in the NonMODS data and used all of them in

25   my distribution of mixed and not handling costs.[4]

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[3] See Degen's response to DMA/USPS-T12-13b and Dma13b.xlx in USPS LR-H-304.

[4] I expected to find CAG's I and J data as well in NonMODS offices, but since the tally costs I used add up
to the same number as that indicated by Degen, I must have used all the data he used. If CAG's I and J

1   Table A-3 illustrates the importance of distributing costs within CAG. Part a of the
2   table breaks down the direct, mixed and not handling costs in MODS facilities by CAG.
3   While 90.3% of the direct MODS mail processing costs are in CAG A, almost 95% of the
4   mixed mail costs and over 95% of certain not handling costs are in CAG A. The not
5   handling costs most concentrated in large facilities (CAG A) are those associated with
6   activity codes 5610-5750, and these are the not handling costs that have grown the most
7   since the Postal Service introduced letter mail automation. Of the MODS CAG A
8   volume variable costs that I distribute as mail processing costs (segment 3.1), only
9   48.49% are from direct mail tallies. If one includes the additional not handling costs
10   that Degen misclassified as mail processing, then only 45.69% are from direct tallies.

11   That excessive not handling time is predominantly a problem in very large postal
12   facilities is confirmed by part b of Table A-3, which breaks down direct, mixed and not
13   handling costs in NonMODS offices by CAG B through H. As one goes to smaller and
14   smaller facilities, the percent of direct costs increases and the time spent not handling
15   decreases, to only 12.4% of total employee time in CAG H facilities.[5]

16   b. Distribution Within Basic Function

17   The basic function categories used in IOCS are: (1) outgoing; (2) incoming; (3) transit;
18   and (4) other. According to Handbook F-45, one of the first three categories should be
19   used when an employee is handling mail and for most not handling activities as well,
20   while the "other" category is to be used "when the employee is working in a section or
21   operation that does not involve mail and the Basic Functions Outgoing, Incoming, and
22   Transit do not apply." USPS LR-H-49 at 136-38 and Appendix B.

23   Yet the "other" category appears, though as a small percentage of the total, also for
24   direct mail and mixed mail tallies. Since this appears to mean simply that the IOCS
25   clerks could not determine the correct basic function, I eliminate "other" as a separate
26   category prior to distributing mixed mail and not handling costs. This is done by
27   allocating the "other" costs proportionately over the three other categories in both the

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data ever existed, they must have been combined with CAG H data in an earlier stage of processing the
IOCS data.

[5] In CAG H facilities, employees spend an average of only 16 minutes in an eight hour day on
"breaks/personal needs," almost one hour less than the system average for clerks and mailhandlers.

1   distributing and distributed data sets.[6]

2   I do not use distribution by basic function for not handling costs that are given totally or
3   predominantly as "other." For example, almost all "break/personal needs" costs
4   appear with basic function "other" in the IOCS data, reflecting the obvious fact that
5   basic function is meaningless for an employee who is on break.[7]

6   **5. Distribution Of Mixed Mail And Not Handling Costs**

7   Described below are the distribution keys I developed for mixed mail and the various
8   types of not handling costs. All distributions are performed separately within each of
9   the three facility types, i.e. MODS, NonMODS, and BMC's. The first "page" in
10   spreadsheets MODS, NonMODS, and BMC shows the process that starts with the direct
11   costs for each facility type and ends with the inclusion of all mixed mail and not
12   handling costs, except the not handling costs that are reassigned to cost segments 3.2
13   and 3.3. Tables A-5 through A-7 show my attribution of direct, mixed mail and not
14   handling costs to subclasses and special services in, respectively, MODS, NonMODS
15   and BMC facilities.

16   The discussion below is organized as follows:

17   (1) mixed mail costs;
18   (2) window service and administration/support related not handling costs;
19   (3) specific class or service related not handling costs;
20   (4) shape-related not handling costs;
21   (5) mixed shapes not handling and overhead costs; and
22   (6) other not handling costs.

23   a. Mixed Mail Costs

24   With a few exceptions, the mixed mail tallies in Degen's IOCS mail processing data base
25   have one of the following five activity codes:

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[6] If, for example, the basic functions in a given data set are 40% outgoing, 40% incoming, 10% transit and
10% other, this is transformed to 44.444% outgoing, 44.444% incoming and 11.111% transit.

[7] While this is recognized in IOCS, Degen goes to the other extreme, assuming that all break time costs
must be distributed to mail handled in the pool that the idle employee is clocked into while on break.

1   (1) 5610 - mixed letters and cards;

2   (2) 5620 - mixed flats;

3   (3) 5700 - mixed IPP's and parcels;

4   (4) 5750 - mixed all shapes; and

5   (5) 6523 - empty items and containers.

6   I distribute the mixed mail costs with activity code 5610 based on the corresponding

7   direct costs associated with letters and cards. The distribution is performed within

8   facility type, CAG and basic function. Similarly, I distribute the 5620 mixed mail costs

9   based on direct costs associated with flats and the 5700 mixed mail costs based on direct

10   costs associated with IPP's and parcels. For the last two categories, which represent by

11   far the largest portion of mixed mail costs, I use a distribution key based on all direct

12   costs for subclasses. This distribution is also performed within facility type, CAG and

13   basic function. I distribute no mixed mail costs to special services. The distributed

14   mixed mail costs are added to the direct costs, forming another distribution key used

15   for some of the not handling costs described below.[8]

16   <u>b. Window Service and Administration/Support Costs</u>

17   Appendix B identifies the window service and administration/support related not

18   handling costs that Degen has classified as mail processing costs, and describes how

19   such costs should be distributed. As discussed earlier in this testimony, once the volume

20   variable portion of these costs has been determined, there is no reason not to distribute

21   them according to what the observed employees were actually doing. I reassign them

22   back to cost segments 3.2 and 3.3 in order to apply a more appropriate distribution

23   method.

24   <u>c. Specific Class Or Service Related Costs</u>

25   Costs with not handling codes 6220, 6230 and 6231 appear in all three facility types.

26   There is no need to "distribute" these costs since they are in fact associated specifically

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[8] The exceptions referred to above occur for MODS facilities only. They include a small amount of costs (0.521 million volume variable) with activity code 5461, representing mixed international mail, which I attribute directly to international mail. Additionally, there are a total of $3.225 million volume variable costs with activity codes 6480, 6516, 6519, 6620 and 6630, all of which should ideally be considered part of segment 3.3 (administration and support). Since the amount is relatively small, I kept them as a part of segment 3.1 costs and distributed them in the same way as the 5750 and 6523 mixed mail costs.

1   with special delivery, Registry and Express Mail. Table A-1 summarizes the volume

2   variable costs, tally costs and accrued costs for these activity codes.

3   Traditionally, 6231 costs have been treated as "specific fixed" costs associated with

4   Express Mail in cost segment 3.3. In the Postal Service's filing, those 6231 costs that

5   Degen did not transfer to mail processing are still treated, in cost segment 3.3, as

6   specific fixed costs that become part of the incremental Express Mail costs. For

7   consistency I reallocate all 6231 costs back to segment 3.3, as explained further in

8   Appendix B.

Table A-1: Class/Service Specific Not Handling Costs - All Offices ($1,000's)				
Class/ Service	Activity Code	Volume Variable	Accrued Costs	Tally Costs
Spec. Delivery	6220	1,517	4,137	4,051
Registry	6230	30,605	80,389	85,367
Express Mail	6231	29,863	54,195	57,209
Total		61,985	138,721	146,628

9   d. Shape Related Not Handling Costs.

10   These are the not handling components of activity codes 5610, 5620 and 5700. I

11   distribute them based on direct costs for, respectively, letters and cards, flats and

12   IPP's/parcels. These distributions are performed separately within each combination of

13   CAG, basic function, and facility type, but across MODS (PIRS) cost pools. Separate

14   pages in spreadsheets MODS, BMC, and NonMODS contain each shape based

15   distribution key.

16   One would expect to find 5610 costs at operations dedicated to letters, 5620 at those

17   dedicated to flats, and 5700 at those dedicated to parcels. However, although

18   concentrated mostly at those operations, each type of cost also occurs, in Degen's data

19   base, at many operations where one would not expect to find them. At the same time,

20   one finds handlings of individual letters, flats, or parcels at operations one would not

21   expect. This is illustrated in Table A-4. Presumably, this is due to employees being

22   clocked into one operation while working at another. As with the mixed shapes and

23   general overhead costs discussed below, I conclude that these costs should not be

24   distributed separately within individual MODS cost pools.

1   e. Mixed Shapes And Overhead Costs

2   These are costs with activity codes 5750 (mixed shapes), 6521 (breaks/personal needs),

3   6522 (clocking in/out), and 6523 (not handling empty equipment). Table A-2 shows the

4   magnitude of these costs, which represent $3.6 billion in IOCS tally costs, $3.73 billion in

5   accrued costs according to Degen, and $2.73 billion in volume variable costs according

6   to Degen/Bradley. What is known about these costs is that they have grown a great

7   deal during the implementation of letter mail automation, but it is not known precisely

8   why they have grown and continue to grow so much. Distributing these costs within

9   individual MODS or PIRS pools when so little is known about their true causality

10   makes little sense. I distribute them across all MODS (PIRS) cost pools, but within CAG

11   and basic function, with the exception that basic function is not known for the 6521 and

12   6522 costs. I distribute the 6523 costs over direct and mixed costs for all mail and the

13   others over direct and mixed costs for all mail and special services.

Table A-2: Mixed & Overhead Not Handling Mail Processing Costs ($1,000s)				
	IOCS Code	Volume Variable Costs	Accrued Costs	Tally Costs
Mixed All Shapes	5750	782,792	1,073,136	1,028,702
Breaks/Personal Needs	6521	1,478,103	2,032,392	1,966,503
Clocking In/Out	6522	194,309	252,614	245,861
Empty Equip. Not Handling	6523	277,939	369,353	360,580
Total		2,733,142	3,727,494	3,601,646

14   Tallies with activity code 6522 are not included in the IOCS data for BMC's and

15   NonMODS offices presented in this docket. Instead they are distributed by

16   Alexandrovich (WP-B, W.S.3.1.1) after Degen finishes his distribution of all other mail

17   processing costs. Section 6 below describes this and several other adjustments required

18   for a complete distribution of all mail processing costs.

19   In the BMC IOCS data, the 6521 costs appear as belonging to a separate cost pool

20   (Zbreaks) that is not included among the BMC cost pools Degen lists in his testimony

21   and various interrogatory responses. Instead, Degen has included a distribution of the

22   6521 costs in the accrued costs he gives for the six other BMC cost pools. Using Degen's

23   accrued pool costs, it therefore is not necessary to explicitly consider the 6521 costs in

24   the analysis of BMC costs.

1   As explained earlier in this testimony, the evidence available to link these costs to
2   specific subclasses and special services is so weak that I seriously doubt whether any
3   rational basis exists for attributing even their volume variable portion. For this reason,
4   the Commission should consider treating some or all of the not handling costs with
5   activity codes 5750 and 6521-23 ($3.6 billion in IOCS costs) as institutional costs, at least
6   until the Postal Service provides a credible explanation of what has caused these costs
7   to increase so much during the past ten years. If, however, the Commission decides
8   that these costs must be attributed, then it should, given that so little is known about
9   their true causes, treat them as general overhead costs and distribute them in the
10   manner explained above.

11   f. Other Not Handling Costs

12   There remain the following categories of not handling costs not discussed above:

13   • platform acceptance costs (6210);
14   • nixie costs (6240);
15   • central markup costs (6570);
16   • postage due costs (6580); and
17   • carrier related costs (6420, 6430).

18   As with other categories of non-overhead not handling costs, Degen ignores the ready
19   availability of distribution keys suited to not handling costs with activity codes 6210,
20   6240, 6570 and 6580. For example, the LIOCATT program treats the platform
21   acceptance not handling costs (code 6210) as part of uniform operation code 07, which is
22   defined as "accepting mail from patron on platform." Similarly, Nixie costs have
23   uniform operation code 06, and postage due and central markup costs have operation
24   codes 00 and 14.[9]

25   The ideal way to distribute these not handling costs, in a manner consistent with
26   Bradley's volume variability estimates, is therefore as follows. For each facility type,
27   isolate the volume variable direct costs associated with uniform operation codes 00, 06,
28   07 and 14 respectively and use each set as a distribution key for the corresponding not

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[9] See Table B-5 in USPS LR-H-1 and FY96 CRA Workpaper C-2: Fiscal Year 1996 LIOCATT for clerks and mailhandlers by operation code.

1   handling costs. These distributions can then be performed separately within facility
2   type, CAG and basic function.

3   I have used a slightly simpler approach, due to shortness of time and resources. Rather
4   than constructing distribution keys for not handling costs 6210, 6240, 6570 and 6580
5   separately from the IOCS data for each facility type, I simply used the distribution keys
6   available from the FY96 LIOCATT, i.e. the distributed costs for the four uniform
7   operation codes listed above. Table A-8 summarizes these distribution keys. This
8   approach requires use of the same distribution key for each facility type, but the
9   inaccuracy that might result is negligible compared to the major distortion caused by
10   Degen's method, which simply ignores all information about the nature of each not
11   handling activity. For example, as can be seen from Table A-8, more than half of all
12   postage due costs are linked to special services. That is also true for the direct costs in
13   Degen's "Business Reply" cost pool. But most of the not handling postage due costs
14   (code 6580) are spread over a variety of other Degen cost pools that sampled employees
15   happened to be clocked into. The consequence is that under Degen's scheme a
16   disproportionate share of the 6580 costs are distributed to mail classes, including classes
17   that do not incur any direct postage due costs.

18   In the case of 6210 (platform acceptance) not handling costs, I do not use basic function
19   since it appears that doing so would make little sense.[10]

20   The last category listed above (6420 and 6430) is costs that it would appear should not
21   even be in cost segment 3. I have treated these as system overhead costs and
22   distributed them in the same manner as the other overhead costs described in the
23   preceding section.

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[10] As can be seen from the LIOCATT development of the distribution for uniform operation code 07, almost all these costs with the exception of the 6210 costs are given as outgoing, with the residual portion having basic function "other." The 6210 costs, on the other hand, have a substantial component of incoming and transit. I don't know the reason for this apparent discrepancy. It would appear that mail being accepted from a postal patron is at that point always outgoing mail, since no postal employee has made any decision yet about where to send it.

1   **6. Further Mail Processing Cost Adjustments**

2   In his workpapers A2 and B3 witness Alexandrovich makes several adjustments to the
3   mail processing costs distributed by Degen.   Table A-9 shows corresponding
4   adjustments applied to the alternative distribution described above. These adjustments
5   are:

6   (1) distribution of BMC and NonMods clocking in and out costs (activity code
7   6522);
8   (2) special delivery adjustment;
9   (3) registry adjustment;
10   (4) lump sum distribution; and
11   (5) premium pay adjustment.

12   The first four of these adjustments are carried out in W.S. 3.1.1 of Alexandrovich's B3
13   workpaper (LR-H-201). I have carried out the corresponding adjustments, based on my
14   revised distribution of mixed mail and not handling costs.   The first adjustment
15   distributes a total of $47.111 million in accrued clocking in and out costs at BMC's and
16   NonMODS offices ($34.635 million volume variable), based on all other mail processing
17   costs distributed for these facility types.   The second adjustment distributes special
18   delivery mail processing costs to subclasses based on Segment 9 mail handling costs.
19   The third adjustment distributes Registry costs to certain mail categories and the last
20   adjustment distributes a total of $33.826 million in lump sum costs that are not included
21   in the IOCS data base.

22   The premium pay adjustment is shown at the beginning of Alexandrovich's workpaper
23   A2. It is based on keys for nightshift and Sunday processing that should be recalculated
24   to be consistent with my revised mail processing cost distribution. I have not, however,
25   attempted to update these keys. Instead, I simply redistributed the same total costs that
26   Alexandrovich redistributes in performing this adjustment.

27   Page WKPA_B in spreadsheet MODSNH shows the details of the adjustments
28   described above. I used the resulting mail processing costs distribution, shown in Table
29   A-9, in performing the redistribution of certain administration/support costs, as
30   described in Appendix B. Under my method, total BY96 mail processing costs are
31   $12,427.547 million, of which $9,621.583 million are volume variable.

Table A-3a: MODS Direct, Mixed & Not Handling Costs By CAG ($1,000's)			
	CAG A	CAG's BCD	Total
Direct	3,244,655	346,965	3,591,620
	90.34%	9.66%	100.00%
Mixed	858,261	49,551	907,811
	94.54%	5.46%	100.00%
Not Handling:			
5610-5750 Costs	1,153,581	58,177	1,211,758
	95.20%	4.80%	
6521-6523 Costs	1,309,359	110,039	1,419,398
	92.25%	7.75%	100.00%
Other Mail Processing Not Handling	125,355	76,943	202,298
	61.97%	38.03%	100.00%
Total Segment 3.1 Not Handling (Stralberg)	2,588,296	245,158	2,833,454
	91.35%	8.65%	100.00%
Total Segment 3.1 (Stralberg)	6,691,211	641,674	7,332,885
	91.25%	8.75%	100.00%
Not Handling Transferred To 3.2 & 3.3	410,570	80,324	490,895
	83.64%	16.36%	100.00%
Percent Direct:			
Relative To Stralberg Total	48.49%	54.07%	48.98%
Relative To Degen Total	45.69%	48.06%	45.91%

Table A-3b: NonMODS Direct, Mixed & Not handling Costs By CAG ($1,000's)								
	B	C	D	E	F	G	H	Total
Direct	104,104	252,268	213,427	235,190	144,443	92,420	93,262	1,135,114
	9.17%	22.22%	18.80%	20.72%	12.73%	8.14%	8.22%	100.00%
Mixed	14,510	41,104	27,455	41,083	18,112	6,835	4,644	153,742
	9.44%	26.74%	17.86%	26.72%	11.78%	4.45%	3.02%	100.00%
Not Handling	67,937	178,179	95,947	99,638	48,986	33,707	13,800	538,194
	12.62%	33.11%	17.83%	18.51%	9.10%	6.26%	2.56%	100.00%
Total	186,551	471,551	336,828	375,910	211,541	132,963	111,706	1,827,050
	10.21%	25.81%	18.44%	20.57%	11.58%	7.28%	6.11%	100.00%
Percent Direct	55.80%	53.50%	63.36%	62.57%	68.28%	69.51%	83.49%	62.13%
Percent Mixed	7.78%	8.72%	8.15%	10.93%	8.56%	5.14%	4.16%	8.41%
Percent Not Handling	36.42%	37.79%	28.49%	26.51%	23.16%	25.35%	12.35%	29.46%

Table A-4: Shape Related Direct & Not Handling Costs in MODS Cost Pools ($1,000's)					
	Direct Handling			Shape Related Not Handling		
Cost Pool:	Letters & Cards	Flats	IPP's & Parcels	Letters & Cards	Flats	IPP's & Parcels
BCS/	213,380	823	193	103,202	111	137
EXPRESS	388	6,962	1,663	92	105	186
FSM/	8,519	334,521	3,013	4,066	72,872	165
LSM/	395,380	2,556	540	57,419	659	209
MANF	11,138	204,992	5,199	3,495	42,024	204
MANL	551,215	20,554	4,442	90,205	3,201	499
MANP	599	1,430	5,882	206	106	1,758
MECPARC	290	348	2,050	41	0	1,036
OCR/	59,532	675	192	24,923	90	0
PRIORITY	1,095	12,737	22,870	471	330	5,328
SPBS OTH	1,265	4,075	9,648	127	108	1,543
SPBSPRIO	68	4,273	9,819	153	220	1,201
BUSREPLY	3,637	630	319	427	0	108
INTL	17,708	5,045	5,602	2,145	819	1,230
LD15	130,393	1,426	0	42,430	0	0
LD41	4,764	28	0	5,301	32	0
LD42	327	450	24	107	63	0
LD43	74,359	41,874	26,762	20,666	6,075	5,342
LD44	38,587	11,759	2,054	5,806	411	192
LD48 EXP	16	226	25	0	0	0
LD48 OTH	2,126	533	400	308	71	49
LD48_SSV	1,462	741	312	198	34	18
LD49	78,251	28,505	3,247	650	53	0
LD79	3,558	797	373	211	0	69
MAILGRAM	0	0	0	0	0	0
REGISTRY	449	203	111	70	28	7
REWRAP	2,293	361	465	377	0	302
1BULK PR	662	106	123	137	0	71
1CANCMPP	52,222	12,705	4,509	11,305	1,669	182
1EEQMT	216	170	62	0	59	122
1MISC	4,606	1,421	1,010	5,165	1,678	296
1OPBULK	10,999	10,392	4,713	7,673	4,114	1,533
1OPPREF	32,335	26,630	29,357	22,401	6,069	4,250
1PLATFRM	6,541	6,040	9,695	5,686	2,471	3,705
1POUCHNG	14,740	13,754	17,522	19,921	6,980	1,657
1SACKS_H	942	1,193	2,900	687	592	881
1SACKS_M	64	544	1,063	139	0	749
1SCAN	593	754	3,079	373	195	171
1SUPPORT	2,822	516	316	887	187	40
LD48_ADM	0	0	0	0	0	0
Total	1,727,540	760,750	179,553	437,470	151,426	33,244

Table A-5: Distribution Of MODS Direct, Mixed And Not Handling Costs ($1,000's)					
	Direct Costs	Mixed Mail Costs	Not Handling Costs	Distribute 5301-5345 Costs	Total
First-Class:					
Letters and Parcels	1,897,032	496,676	1,494,403	1,916	3,890,026
Presort Letters and Parcels	388,342	94,308	304,788	388	787,825
Postal Cards	1,048	285	844	1	2,177
Private Mailing Cards	59,994	15,487	48,521	61	124,063
Presort Cards	17,661	4,629	14,984	18	37,292
Priority Mail	121,421	34,574	99,204		255,199
Express Mail	17,159	5,662	17,570		40,391
Mailgrams	49	15	44		108
Periodicals:					
Within County	4,194	925	3,356	17	8,492
Regular Rate Publications	137,930	33,129	100,533	556	272,147
Nonprofit Publications	25,222	5,955	19,180	103	50,460
Classroom Publications	1,073	266	748	4	2,092
Standard A:					
Single Piece Rate	24,650	5,988	20,941	452	52,031
Regular Enh. Car. Rte.	67,185	14,933	50,392	1,162	133,672
Regular Other	486,785	119,034	369,041	8,550	983,411
Nonprofit Enh. Car. Rte.	7,872	1,704	5,755	134	15,464
Nonprofit Other	131,636	31,915	104,004	2,347	269,902
Standard B:					
Parcels Zone Rate	17,140	4,747	14,652	245	36,783
Bound Printed Matter	9,310	2,208	7,354	126	18,998
Special Standard	7,287	1,976	6,123	103	15,488
Library Mail	2,143	549	1,560	28	4,280
Penalty - U. S.P.S.	28,087	6,491	23,984		58,562
Free Mail	2,644	742	2,134		5,520
International Mail	73,833	23,695	65,105		162,633
Special Services:					
Registry	14,130	0	25,045		39,174
Certified	3,733	0	3,416		7,149
Insurance	124	0	174		298
COD	432	0	294		726
Special Delivery	135	0	1,168		1,304
Special Handling	79	0	42		122
Other Special Services	34,037	0	23,057		57,094
Mixed First Class (5301)	1,281	315	789	(2,385)	0
Mixed Periodicals (5331)	389	81	211	(680)	0
Mixed Third Class (5340)	6,586	1,321	3,502	(11,409)	0
Mixed Standard A (5341)	710	145	382	(1,237)	0
Mixed Standard B (5345)	290	58	154	(502)	0
Total	3,591,620	907,811	2,833,454	0	7,332,885

Table A-6: Distribution Of NonMODS Direct, Mixed And Not Handling Costs ($1,000's)						
	Direct Costs	Mixed Mail Costs	Not Handling Costs	5301-5345 Costs	Total Tally Costs	Volume Variable Costs
First-Class:						
Letters and Parcels	618,647	88,023	269,551	3,651	979,873	808,605
Presort Letters and Parcels	167,535	21,344	71,319	973	261,171	215,522
Postal Cards	693	132	306	4	1,135	936
Private Mailing Cards	19,984	2,819	9,040	119	31,963	26,376
Presort Cards	6,089	930	2,979	37	10,036	8,282
Priority Mail	45,114	6,924	22,856		74,893	61,803
Express Mail	8,578	1,448	5,846		15,872	13,098
Mailgrams	0	0	0		0	0
Periodicals:						
Within County	3,991	520	1,523	14	6,048	4,991
Regular Rate Publications	65,433	8,918	26,516	234	101,102	83,430
Nonprofit Publications	11,052	1,461	4,840	40	17,394	14,354
Classroom Publications	893	128	367	3	1,392	1,148
Standard A:						
Single Piece Rate	8,898	1,445	4,750	10	15,103	12,463
Regular Enh. Car. Rte.	53,202	6,176	21,381	53	80,812	66,687
Regular Other	227,279	31,065	99,582	237	358,163	295,561
Nonprofit Enh. Car. Rte.	4,153	542	1,988	4	6,687	5,518
Nonprofit Other	45,632	6,480	23,506	50	75,668	62,442
Standard B:						
Parcels Zone Rate	11,336	2,004	6,264	240	19,844	16,375
Bound Printed Matter	8,401	1,306	3,845	166	13,718	11,320
Special Standard	5,933	1,039	3,300	126	10,397	8,580
Library Mail	1,096	268	535	23	1,923	1,587
Penalty - U. S.P.S.	11,401	2,014	7,018		20,433	16,861
Free Mail	588	86	258		931	768
International Mail	4,151	738	2,650		7,538	6,221
Special Services:						
Registry	7,022	0	25,953		32,975	27,212
Certified	12,518	0	6,570		19,088	15,752
Insurance	481	0	252		733	605
COD	1,409	0	591		1,999	1,650
Special Delivery	0	0	651		651	537
Special Handling	124	0	60		184	152
Other Special Services	19,762	0	17,593		37,355	30,826
Mixed First Class (5301)	348	72	135	(555)	0	0
Mixed Periodicals (5331)	150	33	66	(249)	0	0
Mixed Third Class (5340)	3,390	359	1,036	(4,785)	0	0
Mixed Standard A (5341)	187	24	80	(291)	0	0
Mixed Standard B (5345)	68	9	29	(106)	0	0
Total	1,375,539	186,306	643,236	(0)	2,205,081	1,819,664

Table A-7: Distribution Of BMC Direct, Mixed And Not Handling Costs ($1,000's)					
	Direct Costs	Mixed Mail Costs	Not Handling Costs	Distribute 5301-5345 Costs	Total
First-Class:					
Letters and Parcels	2,082	1,171	2,785	645	6,684
Presort Letters and Parcels	232	119	776	120	1,248
Postal Cards	0	0	0	0	0
Private Mailing Cards	40	22	91	16	169
Presort Cards	0	0	45	5	50
Priority Mail	693	380	936		2,009
Express Mail	8	3	169		180
Mailgrams	0	0	0		0
Periodicals:					
Within County	30	14	50	6	99
Regular Rate Publications	5,741	2,795	3,570	753	12,859
Nonprofit Publications	1,350	646	829	176	3,001
Classroom Publications	255	110	117	30	512
Standard A:					
Single Piece Rate	5,222	2,661	3,912	42	11,837
Regular Enh. Car. Rte.	6,546	3,258	4,553	51	14,408
Regular Other	61,278	30,505	43,031	476	135,290
Nonprofit Enh. Car. Rte.	590	288	398	5	1,280
Nonprofit Other	8,701	4,365	6,122	68	19,255
Standard B:					
Parcels Zone Rate	31,528	16,155	25,241	40	72,965
Bound Printed Matter	15,484	7,811	11,941	19	35,256
Special Standard	20,115	10,077	15,282	25	45,500
Library Mail	4,070	2,128	3,414	5	9,617
Penalty - U. S.P.S.	1,545	840	1,482		3,866
Free Mail	915	511	849		2,275
International Mail	12,012	6,575	10,343		28,931
Special Services:					
Registry	145	0	421		566
Certified	0	0	32		32
Insurance	11	0	12		23
COD	0	0	1		1
Special Delivery	0	0	6		6
Special Handling	0	0	1		1
Other Special Services	179	0	113		292
Mixed First Class (5301)	40	22	29	(90)	0
Mixed Periodicals (5331)	118	51	50	(219)	0
Mixed Third Class (5340)	425	182	179	(787)	0
Mixed Standard A (5341)	459	226	279	(964)	0
Mixed Standard B (5345)	197	100	124	(421)	0
Total	180,010	91,015	137,186	(0)	408,211

Table A-8: LIOCATT Based Distribution Keys For Certain Not Handling Costs				
	Platform Accept	Nixie	Central Markup	Postage Due Due
Not Handling Code	6210	6240	6570	6580
IOCS Operation Code	07	06	14	00
First-Class:				
Letters and Parcels	7,086,660	52,139,636	69,869,862	17,205,321
Presort Letters and Parcels	5,557,860	14,424,783	47,314,507	2,250,290
Postal Cards	0	320,350	0	0
Private Mailing Cards	516,789	1,830,085	4,609,543	572,542
Presort Cards	411,086	569,251	1,623,596	204,066
Priority Mail	2,717,705	2,229,056	1,499,294	788,831
Express Mail	496,231	28,052,533	225,177	728,798
Mailgrams	0	0	0	0
Periodicals:				
Within County	325,354	0	428,948	0
Regular Rate Publications	1,557,034	3,199,526	14,351,969	0
Nonprofit Publications	494,467	434,390	4,425,371	0
Classroom Publications	399	0	0	0
Standard A:				
Single Piece Rate	380,319	1,137,129	7,000,123	969,118
Regular Enh. Car. Rte.	4,096,682	736,784	1,678,872	182,131
Regular Other	13,424,292	6,064,397	7,387,738	1,154,887
Nonprofit Enh. Car. Rte.	423,389	82,505	269,550	0
Nonprofit Other	6,419,477	1,590,259	1,159,387	345,016
Standard B:				
Parcels Zone Rate	899,106	389,628	591,262	220,967
Bound Printed Matter	334,873	292,641	1,553,663	118,594
Special Standard	249,253	443,927	372,198	523,877
Library Mail	0	0	51,579	0
Penalty - U. S.P.S.	900,408	4,630,326	9,479,484	1,074,087
Free Mail	0	0	273,562	0
International Mail	176,690	10,583,168	525,311	902,985
Special Services:				
Registry	63,342	60,864,964	70,239	361,974
Certified	144,955	23,240,271	0	3,406,832
Insurance	53,142	533,070	0	82,234
COD	0	2,316,941	0	137,489
Special Delivery	60,859	0	0	0
Special Handling	6,472	0	0	0
Other Special Services	119,672	10,883,053	8,704,344	31,292,750
Total	46,916,516	226,988,673	183,465,579	62,522,789

Table A-9: Adjustments To Redistributed Mail Processing Costs ($1,000's)

	MP Costs From Exhibit 1	BMC/ N.MODS 6522 Costs	Special Delivery Adjust.	Registry Adjust.	Lump Sum Dist.	Premium Pay Adjust.	Adjusted MP Costs
First-Class:							
Letters & Parcels	4,705,316	11,095	14	0	12,87	95,283	4,824,580
Presort Letters & Parcels	1,004,595	2,944	10	0	2,750	11,714	1,022,013
Postal cards	3,114	13	0	0	9	0	3,135
Single Piece Cards	150,608	361	1	0	412	3,298	154,679
Presort Cards	45,625	113	1	0	125	1,500	47,363
Total First Class	5,909,257	14,526	26	0	16,16	111,79	6,051,771
Priority Mail	319,010	885	32	0	873	(3,531)	317,269
Express Mail	53,669	181	1,476	0	151	(1,855)	53,623
Mailgrams	108	0	2	0	0	4	114
Periodicals:							
Within County	13,582	70	0	0	37	(60)	13,630
Regular Rate Publications	368,436	1,444	1	0	1,010	3,181	374,072
Nonprofit Publications	67,815	268	0	0	186	864	69,132
Classroom Publications	3,752	28	0	0	10	32	3,822
Total Perodicals	453,585	1,810	1	0	1,243	4,017	460,656
Standard A:							
Single Piece Rate	76,331	460	0	0	210	(3,274)	73,726
Regular Enh. Car. Rte.	214,768	1,256	0	0	590	(11,011	205,602
Regular Other	1,414,263	7,322	0	0	3,880	(65,406	1,360,059
Total Bulk Regular	1,629,031	8,578	0	0	4,470	(76,417	1,565,661
Nonprofit Enh. Car. Rte.	22,262	106	0	0	61	(1,175)	21,255
Nonprofit Other	351,599	1,318	0	0	963	(15,544	338,336
Total Bulk Nonprofit	373,862	1,424	0	0	1,024	(16,719	359,590
Total Standard A	2,079,223	10,461	0	0	5,703	(96,410	1,998,978
Standard B:							
Parcels Zone Rate	126,123	2,015	1	0	350	(6,112)	122,377
Bound Printed Matter	65,574	1,020	0	0	182	(3,135)	63,641
Special Standard	69,568	1,235	0	0	193	(2,835)	68,161
Library Mail	15,483	258	0	0	43	(693)	15,091
Total Standard B	276,748	4,528	2	0	768	(12,775	269,270
Penalty - U. S.P.S.	79,290	323	0	24,655	285	(933)	103,620
Free Mail	8,563	66	0	0	24	273	8,926
International Mail	197,785	795	267	11,159	573	(585)	209,994
Total All Mail	9,377,239	33,575	1,806	35,814	25,78	0	9,474,221
Special Services:							
Registry	66,952	382	0	(35,814)	86	0	31,606
Certified	22,932	214	0	0	63	0	23,209
Insurance	925	9	0	0	3	0	937
COD	2,378	22	0	0	7	0	2,406
Special Delivery	1,847	7	(1,806)	0	0	0	49
Special Handling	274	2	0	0	1	0	277
Other	88,212	424	0	0	242	0	88,878
Total Special Services	183,521	1,060	(1,806)	(35,814)	401	0	147,362
Total Volume Variable	9,560,760	34,635	0	0	26,18	0	9,621,583
Other	2,785,850	12,476	0	0	7,637	0	2,805,963
Total Costs	12,346,610	47,111	0	0	33,82	0	12,427,547

1   **APPENDIX B: WINDOW SERVICE AND ADMINISTRATIVE COSTS**

2   This appendix identifies the not handling costs that Degen proposes to treat as mail
3   processing costs that should instead be treated as parts of cost segments 3.2 (window
4   service) and 3.3 (administration and support). It also explains how I propose to
5   attribute these reassigned costs to subclasses and special services.

6   Table B-1 summarizes the volume variable portion of these costs, as well as the
7   corresponding IOCS tally costs and accrued costs. Degen attributes these costs to mail
8   processing because employees incurring them happened to be (erroneously) clocked
9   into mail processing operations when observed by IOCS clerks. However, as explained
10   earlier in this testimony, once the volume variable portion of these costs has been
11   determined, there is no reason not to distribute them according to what the observed
12   employees were actually doing, i.e. window service and administrative work.

Table B-1:Not Handling Costs That Should Be Returned To Segments 3.2 & 3.3 ($1,000's)			
Cost Category	Volume Variable	Accrued Costs	Tally Costs
Window Service:			
Codes 5020-5195, 6000-6200	41,444	99,395	105,705
Breaks (6521)	5,469	9,802	10,224
Clocking In/Out (6522)	3,496	8,138	8,640
Total Window Service	50,409	117,335	124,569
Administration - Support:			
Express Mail (Code 6231)	29,863	54,195	57,209
Codes 6320-30, 6460-6519, 6610-60	284,363	468,345	495,253
Breaks (6521)	121,934	161,506	161,961
Clocking In/Out (6522)	11,748	18,485	19,330
Total Administration - Support	447,909	702,531	733,754
Total Transferred From Mail Processing	498,317	819,866	858,322

13   The volume variable costs in Table B-1 include:

14   (1) $41.444 million with activity codes 5020-5195 and 6000-6200, which represent
15   various types of window related activities;
16   (2) $29.863 million in administrative costs specifically related to Express Mail;
17   (3) $284.363 million with activity codes 6320-6330, 6460-6519 and 6610-6660, which
18   represent various types of administrative and support activities; and
19   (4) $142.647 million in overhead (breaks and clocking in/out) costs.

20   In the following I explain first how the costs in Table B-1 should be distributed to

1   subclasses and special services within cost segments 3.2 and 3.3. I then explain my
2   calculation of the overhead portion of these costs.

3   **1. Window Service Costs**

4   Table B-2 breaks down the reallocated window service costs by IOCS activity code. It
5   includes a description of the type of activity indicated by each code, according to
6   Appendix B in USPS LR-H-1. I reassign all costs with codes 5020-5180 and 6000-6200
7   found in the MODS mail processing part of Degen's IOCS data. Degen's answer to
8   MPA/USPS-T12-8d (see accompanying spreadsheet in USPS LR-H-277) confirms that
9   all these costs, as well as the corresponding break time costs, would traditionally have
10   been treated as window service costs. My calculation of the reallocated clocking in and
11   out costs is explained in Section 3 below.

12   Table B-3 shows how I propose to attribute these costs to subclasses and special
13   services. In the Postal Service's filing, the final attribution of window service costs is
14   developed in worksheet W.S.3.2.1 in witness Alexandrovich's workpaper B. My
15   calculations start with the results of that worksheet and apply a similar methodology to
16   the additional window service costs.

17   For example, W.S.3.2.1 attributes costs with activity codes 5040 and 6040, which
18   represent selling stamps to customers, based on RPW estimates of the number of
19   stamps used by each subclass. I do the same with the additional 5040 and 6040 costs
20   that Degen misclassified as mail processing costs. The only difference is that while
21   W.S.3.2.1 applies an assumed volume variability factor for these costs, I use the volume
22   variable portion of the additional 5040 and 6040 costs that is already given in Table B-2.
23   I use a similar approach for codes 5070, 6070, and 6073, which relate to the setting of
24   meters. Consistent with W.S.3.2.1, I attribute the costs of codes 5050 and 6050 (selling
25   cards) to the private post card subclass.

26   Additionally, many of the codes in Table B-2 correspond to specific categories of special
27   services and can be attributed directly to those services. Codes 5020 and 6020 relate to
28   P.O. boxes. Codes 5080 and 6080 relate to money orders. I attribute them to these
29   services. Similarly, I attribute costs with codes 5060 and 5090 to stamped envelopes and
30   codes 5120, 6030, 6120 and 6200 to other services.

1 Finally, I add the costs attributed as described above to the total costs for each subclass

2 and service given in W.S.3.2.1 and use those combined costs as a key for attributing all

3 remaining window service costs shown in Table B-2.

4 Total window service costs under this approach become $2,023.956 million, about $10

5 million more than in the FY96 CRA cost report. There appear to be two reasons for this

6 discrepancy. First, with the re-weighting of IOCS tallies that Degen performs in order

7 to be consistent with Bradley's volume variability analysis, the IOCS tallies indicating

8 window service cannot be expected to produce exactly the same costs as under the

9 traditional IOCS approach. Second, Degen indicated in his responses to MPA/USPS-

10 T12-8 and TW/USPS-T12-41 that some direct costs have been transferred by his

11 method, both from window service to mail processing and vice versa. Since these are

12 direct costs whose subclass is already known, and the main objective is to attribute costs

13 to subclasses, I did not attempt to reclassify them between mail processing and window

14 service.

15 **2. Administrative And Support Costs**

16 Table B-4 breaks down the reallocated administrative and support costs by IOCS

17 activity code and describes the type of activity indicated by each code, according to

18 Appendix B in USPS LR-H-1.[1] In the following I explain how the volume variable

19 portion of these costs should be attributed to subclasses and special services.

20 Costs with activity codes 6320-6330, 6460-6519 and 6610-6660 are used in W.S.3.0.4 of

21 Alexandrovich's workpaper B to develop different categories of administrative and

22 support costs. Those costs are then distributed in worksheets W.S.3.3.1 and 3.3.2 and

23 workpapers A1 and A2, using various distribution keys. For example, costs with code

24 6630, by far the largest component in Table B-4, are part of general office and clerical

25 costs and are distributed based on all other salaries in cost segments 2 through 12.

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[1] My analysis of administration-related not handling costs matches that indicated by Degen in his response to MPA/USPS-T12-8, except that Degen's answer did not include $12.7 million related to LD15, representing remote encoding facilities. For consistency, I have included the LD15 administration-related costs in the above table. Since the remote encoding facilities are physically separate from other mail processing facilities, another approach might be to treat them completely apart from MODS facilities. I have not, however, attempted to carry out this approach.

1   In Table B-5 the reassigned volume variable and accrued costs in Table B-4 are grouped
2   into the cost categories used in W.S.3.0.4. The first two columns show the non-overhead
3   portion of these costs, while the last two columns include the reassigned overhead costs,
4   distributed in the same proportion as the reassigned non-overhead costs.

5   For each category in Table B-5, the volume variable portion should be distributed to
6   subclasses based on the distribution keys used for the corresponding category in the
7   Alexandrovich workpapers. The difference between accrued and volume variable costs
8   should be added to the fixed costs for each category.[2] However, as a result of my
9   redistribution of mail processing and window service costs, some of the distribution
10   keys used by Alexandrovich will also change. His distribution keys include salary costs
11   in cost segments 2-12. My redistribution of mail processing and window service costs
12   will affect the distribution of segment 2 (supervisors) costs as well as segment 11
13   (custodial and maintenance) costs.

14   Table B-7 presents a redistribution of the costs already distributed by Alexandrovich
15   within segment 3.3, as well as a distribution of the reassigned administration/support
16   costs listed in Table B-5.

17   Due to limited time and resources I did not recalculate all elements of Alexandrovich's
18   distribution keys. Specifically, I did not attempt to recalculate the distribution of
19   segment 11 costs. Within segment 2, I redistributed the costs of supervision of mail
20   processing and window service activities, using my revised distributions of the
21   corresponding segment 3 costs. Additionally, I replaced the distribution key for
22   supervision of central mail markup with the same LIOCATT distribution key that I
23   used to distribute activity code 6570 not handling costs, as explained in Appendix A. I
24   did not attempt to redistribute other sub-segments of segment 2. The following
25   describes exactly how I performed the distribution shown in Table B-7, for each cost
26   category in Table B-5. Further details can be found on page WKPA_B of my MODSNH
27   spreadsheet.

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[2] The costs already in W.S.3.0.4 are distributed by Alexandrovich using volume variabilities corresponding to his various distributing sets. Notes on page 38.1 of workpaper A-2. The difference in distributing the reassigned costs is that their volume variability is already known from Table B-4.

1   For the Express Mail related (6231) costs in Table B-5, I attribute the volume variable
2   portion directly to Express Mail, while including the difference between accrued and
3   volume variable costs as "specific fixed," so that all accrued 6231 costs become part of
4   the "incremental" Express Mail costs. With this approach, total 6231 costs associated
5   with Express Mail become $83.505 million, close to the $82.089 million in the FY96 CRA
6   report.

7   I distribute the reassigned data collection and processing costs based on FY96 piece
8   volume data, consistent with Alexandrovich's method. For general office and clerical
9   costs, I use a distribution key based on all segment 2-12 salaries, excluding segment 3.3
10   and the supervision of administration/support activities part of segment 2. I use this
11   key to redistribute the $329.228 million in volume variable general office and clerical
12   costs already distributed by Alexandrovich, as well as to distribute the reassigned
13   $302.865 million. I apply the same distribution key to time and attendance costs.

14   For quality control costs I use a distribution key based on mail processing and segment
15   6 salaries, to distribute both the quality control costs in Table B-5 and those already in
16   segment 3.3. For the last five categories in Table B-5 (scheme examination, parcel
17   training, non-parcel training, other training and "other administration") I simply use
18   the distribution keys already in Alexandrovich's A2 workpaper to distribute the
19   reassigned costs. Ideally, however, most of these distribution keys should be
20   recalculated to be consistent with my revised distribution of mail processing costs.

21   Exhibit 2 summarizes my proposed attribution of the mail processing, window service
22   and administration/support portions of Segment 3 costs. Exhibit 3 compares my
23   distribution of Segment 3 costs with the distribution in Alexandrovich's testimony.[3]

24   As with window service costs, this treatment of administration/support not handling
25   costs assures that the costs of each activity are distributed in a manner consistent with
26   the nature of the activity itself. This is a far more accurate method for attributing these

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[3] Since Degen filed a change to his testimony, resulting in the attribution of an additional $17 million in mail processing costs, I presume that Alexandrovich's Segment 3 cost distribution should change accordingly. However, since I am not aware of any corresponding change being filed by Alexandrovich, I show the original numbers from his testimony in Exhibit 3. For this reason, it may appear, but it is not the case, that I am attributing about $17 million more Segment 3 costs than the Postal Service has proposed.

1   costs to the mail and services that cause them than Degen's method of distributing them
2   within whatever mail processing related cost pools employees doing administrative
3   work were erroneously clocked into.

4   For example, most of the 6231 costs correctly attributed to Express Mail by my method
5   as well as by the traditional IOCS method are distributed by Degen as general not
6   handling costs, causing all classes of mail to bear a part of the burden of these costs.
7   Another example is the $464.134 million ($302.865 million volume variable) in general
8   office and clerical costs (see Table B-5) that Degen distributes within mail processing but
9   that I reassign to administration/support. Since the corresponding $555.181 million
10   ($329.228 million volume variable) that Degen left in cost segment 3.3 are distributed
11   (Alexandrovich workpaper A-2) over all salaries in cost segments 2 through 12, the
12   effect of his approach is that mail processing carries all of the $464.134 million plus its
13   proportionate share of the remaining $555.181 million. Because different subclasses do
14   not use all cost segments in the same proportion, the effect is to overburden those
15   subclasses that use a higher than average portion of mail processing costs.

16   As shown in Table B-7, total segment 3.3 costs with my method are $2,004.601 million,
17   versus $1,987.493 million in the FY96 CRA, a difference of $17.108 million. However,
18   there is one further adjustment that I have not attempted to make, which if carried out
19   would leave cost segment 3.3 with fewer costs than in the FY96 data.

20   In W.S.3.0.4, the "other admin." category includes $70.101 million in volume variable
21   direct & mixed mail costs, imported from part IV of USPS LR-H-146 (see note in
22   W.S.3.3.1), that have migrated from mail processing to segment 3.3. It might be more
23   accurate to transfer these costs back to the mail processing segment, where they would
24   carry their part of the greater burden of overhead and other general not handling costs
25   in mail processing. This adjustment, along with the others described above, would
26   leave segment 3.3 with considerably fewer costs than in the FY96 CRA. This indicates
27   that there still are additional not handling costs, which I have not been able to identify,
28   that should be transferred to segment 3.3.

29   **3. Reallocated Overhead Costs**

30   Employees engaged in window service and administration/support activities obviously

1   also spend some time on breaks and in clocking in or out of operations.

2   I relied on Degen's answer to MPA/USPS-T12-8d to determine the break time (6521)

3   costs that correspond to the non-overhead costs in Tables B-2 and B-4. In that response

4   Degen also indicated that $153.607 million in clocking in/out (6522) costs traditionally

5   classified as administrative have been reclassified by him as mail processing costs.

6   However, Degen appears to have compared his program with the LIOCATT, which

7   calls all 6522 costs administrative. In the past these costs were then distributed, by what

8   used to be called Barker's (now Alexandrovich's) workpapers, among mail processing,

9   window service and administration. I use the approach described below to determine

10   the portion of clocking in and out costs that should be returned to segments 3.2 and 3.3.

11   Traditionally, 6522 costs were distributed among mail processing, window service and

12   administration/support in W.S.3.0.1, by apportioning them based on total non-

13   overhead costs. Alexandrovich, in this docket, uses essentially the same approach for

14   BMC's and Non-MODS offices, where 6522 tally costs do not appear explicitly in the

15   IOCS data base. In fact, he does the same for MODS offices, except that in those offices

16   he excludes mail processing, apparently assuming that the mail processing portion of

17   6522 costs in MODS offices already has been correctly allocated by Degen.

18   Table B-6 presents a similar method of distributing all 6522 costs for MODS offices,

19   including mail processing. The table operates on accrued costs. From the MODS costs

20   assigned by Degen to mail processing ($10,225.601 million) I subtract the 6522 portion

21   as well as the other costs that I reassign back to window service and administration.

22   The adjusted non-6522 MODS costs are used to distribute the 6522 MODS costs. From

23   the 6522 costs distributed in this manner I subtract the 6522 costs attributed to each

24   category by Degen/Alexandrovich to determine the portion that should be reallocated.

25   To determine the volume variable portion of these costs I use the ratio of volume

26   variable to accrued costs for all other costs reassigned to window service and

27   administration/support respectively. The results of this method indicate that $3.496

28   million (volume variable) in 6522 costs should be reallocated to window service and

29    $11.748 million should be reallocated to administration and support.

30   The assumption underlying this method is that, since clerks and mailhandlers appear to

31   move relatively frequently, not only between mail processing activities but also

1   between mail processing, window service and administrative functions, it makes most

2   sense to consider the costs directly involved in moving from one assignment to another

3   as systemwide costs that should be shared in proportion to all other costs. While one

4   could perhaps use alternative assumptions, I believe it is best to rely on this assumption

5   until the Postal Service produces a well-founded study that clearly identifies the specific

6   causes behind the increase in 6522 and other overhead costs.

Table B-2: Window Service Costs Returned To Segment 3.2 ($1,000's)				
Type Of Activity	Code	Volume Variable	Accrued Costs	Tally Costs
Serving A Window Customer:				
P.O. Box	5020	335	758	787
Selling Stamps	5040	9,274	18,480	20,062
Selling Cards	5050	177	362	398
Selling Envelopes Plain	5060	8	50	49
Setting Meters	5070	266	750	807
Selling Money Orders	5080	837	1,473	1,570
Selling Envelopes Printed	5090	8	105	107
Change Of Address	5110	192	382	411
Passport Application	5120	8	377	408
Retail Products	5130	123	208	234
All Other Work	5170	1,358	2,195	2,319
Permit Applications/ Deposits	5180	89	123	129
Customer Inquiry	6000	1,705	4,270	4,480
Waiting For Window Customer	6010	6,737	13,693	14,564
Window Related Activities:				
P.O. Box	6020	3,712	6,698	6,961
Caller Service	6030	2,382	4,574	4,810
Selling Stamps	6040	890	1,925	2,139
SSPC Work	6045	268	876	907
Selling Cards	6050	63	231	239
Setting Meters	6070	431	1,138	1,242
Off Site Setting Meters	6073	120	647	672
Money Orders	6080	138	464	507
Change Of Address	6110	274	538	562
Passport Application	6120	237	1,004	1,099
Retail Products	6130	101	368	379
Migratory Bird Stamp	6140	7	49	48
All Other Work	6170	10,695	34,857	36,901
Permit Applications/ Deposits	6180	248	667	666
Genral Delivery, etc.	6200	760	2,134	2,250
Overhead:				
Breaks	6521	5,469	9,802	10,224
Clocking In/Out	6522	3,496	8,138	8,640
Total Transferred To Window Service		50,409	117,335	124,569

Table B-3: Modified Attribution Of Window Service Costs ($1,000's)							
Subclass	WS 3.2.1	Stamps	Meters	Cards	Spec. Serv.	Overhead & Other	Revised Total
Letters & Parcels	489,789	8,735	362			16,747	515,633
Presort Letters & Parcels	21,505	204	348			740	22,798
Postal cards	0	0	0			0	0
Single Piece Cards	31,460	406	7	240		1,078	33,190
Presort Cards	755	10	1			26	792
Total First Class	543,508	9,355	718	240		18,591	572,412
Priority Mail	41,227	45	9			1,386	42,667
Express Mail	23,023	0	1			773	23,797
Mailgrams	0	0	0			0	0
In-County publications	457					15	473
Regular rate publications	2,186					73	2,260
Nonprofit publications	235					8	243
Classroom publications	0					0	0
Total Periodicals	2,879					97	2,975
Single Piece Rate	2,391	9	1			81	2,481
Regular Enh. Car. Rte.	5,677	72	11			193	5,953
Regular Other	22,021	287	48			750	23,106
Nonprofit Enh. Car. Rte.	930	15	3			32	980
Nonprofit Other	7,998	118	19			273	8,409
Total Standard A	39,017	502	82			1,329	40,930
Parcels Zone Rate	7,491	3	1			252	7,746
Bound Printed Matter	619	1	0			21	641
Special Standard	3,186	2	0			107	3,296
Library Mail	98	0	0			3	102
Total Standard B	11,395	6	2			383	11,786
Penalty - U. S.P.S.	13,740					461	14,202
Free Mail	181					6	187
International Mail	23,585	256	6			801	24,648
Total all mail	698,556	10,164	817			23,826	733,363
Special services:							
Registry	11,695					393	12,087
Certified	37,822					1,270	39,092
Insured	11,550					388	11,938
C.O.D.	3,549					119	3,669
Special delivery	148					5	153
Money orders	79,884				404	2,695	82,983
Stamped envelopes	1,302				16	44	1,361
Special handling	530					18	548
Post Office Box	62,861				4,047	2,246	69,153
Other	6,490				3,387	332	10,208
Total special services	215,831				7,853	7,509	231,193
Total Volume Variable	914,387	10,164	817	240	7,853	31,334	964,796
Total Other Costs	992,234	10,241	1,718	353	9,062	45,552	1,059,610
Total Window Service	1,906,621	20,405	2,535	593	16,915	76,886	2,023,956

Table B-4: Administration - Support Costs Returned To Segment 3.3 ($1,000's)				
Cost Category	Activity Code	Volume Variable	Accrued Costs	Tally Costs
Mail Related:				
Express Mail	6231	29,863	54,195	57,209
Supplies and Equipment (MODS)	6320	3,653	9,068	9,477
Supplies and Equipment (NonMODS)	6320	106	135	129
Claims and Inquiry	6330	4,247	9,112	9,565
Vehicle Service Clerical Work	6460	1,226	2,093	2,148
Qual. Control/Rev. Protection (MODS)	6480	5,991	8,250	8,324
Qual. Control/Rev. Protection (NonMODS)	6480	66	84	80
Headquarters/Area Test	6495	2,041	3,000	2,986
Conducting and Taking Scheme Exams	6500	1,534	2,036	2,277
Training - Letter Shape	6511	3,854	4,015	1,149
Training - Flat Shape	6512	455	520	501
Training - Parcel Shape	6514	63	81	70
Training - Mixed All Shapes	6516	3,665	4,236	2,201
Training - Other Training	6519	10,387	14,540	15,033
General Services:				
Personnel and E&LR Work	6610	13,193	19,427	21,556
Accounting Or Auditing	6620	10,942	21,749	21,189
General Administrative Services	6630	213,934	344,174	370,456
Time and Attendance at Non-PSDS Office	6640	1,253	3,130	3,534
PSDS/MODS Time and Attendance	6650	4,789	17,717	19,139
PSDS/MODS - All Other	6660	2,965	4,977	5,439
Overhead:				
Breaks/Personal Needs	6521	121,934	161,506	161,961
Clocking In/Out	6522	11,748	18,485	19,330
Total		447,909	702,531	733,754

Table B-5: Distribution Of Reassigned Administration - Support Costs To Sub-Segments ($1,000's)				
	Excluding Overhead		With Overhead	
	Volume Variable	Accrued	Volume Variable	Accrued
Express Mail	29,863	54,195	43,728	72,863
Data Collection & Processing	5,005	7,978	7,046	10,726
General Office & Clerical	214,547	345,221	302,865	464,134
Time & Attendance	19,234	40,274	29,537	54,146
Miscellaneous Work	6,057	8,334	8,189	11,204
Scheme Examination	1,534	2,036	2,055	2,738
Parcel Training	116	155	156	208
Non-Parcel Training	7,922	8,698	10,147	11,694
Other Training	10,387	14,540	14,106	19,548
Other Admin	19,561	41,111	30,078	55,272
Total Reassigned	314,226	522,540	447,909	702,531

Table B-6: Reassignment Of 6522 (Clocking In/Out) Costs - MODS Offices ($1,000's Based On W/S 3.0.1, page 2)					
	Mail Processing	Claims/ Inquiry	Window Service	Admin./ Support	Total
Total (Degen)	10,225,601	22,691	684,142	670,637	11,603,071
6522 (Degen)	205,525	674	7,091	7,427	220,717
Excluding 6522 costs	10,020,076	22,017	677,051	663,210	11,382,354
Reassigned Not Handling Costs	(783,785)		109,197	674,589	0
Adjusted Non-6522 Costs	9,236,291	22,017	786,248	1,337,799	11,382,354
Distribute 6522 Costs	178,901	674	15,229	25,912	220,717
New Total	9,415,192	22,691	801,477	1,363,711	11,603,071
Reassigned 6522	(26,623)	0	8,138	18,485	(0)
Volume Variable	(15,245)		3,496	11,748	0

Table B-7: Modified Attribution Of Administration - Support Costs ($1,000's)

	USPS	Stralberg		
		Redistributed	From Seg. 3.1	New Total
First-Class:				
Letters & Parcels	302,027	306,631	175,821	482,452
Presort Letters & Parcels	92,320	92,218	51,380	143,598
Single Piece Cards	11,583	12,161	6,854	19,016
Presort Cards	3,137	3,429	1,933	5,362
Total First Class	409,067	414,439	235,990	650,429
Priority Mail	21,927	18,408	11,091	29,499
Express Mail	6,211	5,651	47,156	52,807
Mailgrams	9	10	7	17
Periodicals:				
Within County	1,721	1,727	1,020	2,747
Regular Rate Publications	27,573	25,784	15,359	41,143
Nonprofit Publications	6,729	6,517	3,690	10,207
Classroom Publications	285	242	145	387
Total Perodicals	36,308	34,270	20,214	54,483
Standard A:				
Single Piece Rate	4,114	4,132	2,451	6,582
Regular Enhanced Car. Rte.	43,303	43,044	23,969	67,013
Regular Other	97,685	96,000	55,132	151,132
Total Bulk Regular	140,988	139,044	79,100	218,145
Nonprofit Enhanced Car. Rte.	3,578	3,476	1,770	5,246
Nonprofit Other	24,178	24,105	13,478	37,583
Total Bulk Nonprofit	27,756	27,581	15,248	42,828
Total Standard A	172,858	170,757	96,799	267,555
Standard B:				
Parcels Zone Rate	8,089	7,567	4,658	12,225
Bound Printed Matter	4,456	4,436	2,894	7,330
Special Standard	3,585	3,757	2,325	6,082
Library Mail	707	711	459	1,170
Total Standard B	16,837	16,471	10,336	26,807
Penalty - U.S.P.S.	6,324	6,619	3,537	10,156
Free Mail	483	458	286	744
International Mail	14,351	14,252	7,643	21,895
Total All Mail	684,375	681,334	433,058	1,114,392
Special Services:				
Registry	2,775	3,212	1,691	4,903
Certified	6,778	7,048	4,404	11,452
Insurance	487	510	341	851
COD	579	602	276	878
Special Delivery	59	64	46	110
Money Orders	2,393	2,511	1,629	4,139
Stamped Envelopes	39	40	26	67
Special Handling	22	25	16	41
Post Office Box	2,438	4,219	2,944	7,163
Other	6,412	6,790	3,475	10,265
Total Special Services	21,982	25,021	14,849	39,870
Total Volume Variable	706,357	706,355	447,907	1,154,262
Other	595,711	595,712	254,626	850,338
Total Costs	1,302,068	1,302,068	702,533	2,004,601

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.
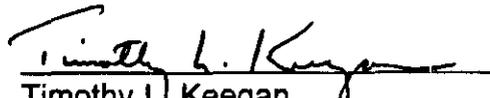
Timothy L. Keegan

December 30, 1997