

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING OF REVISED
TESTIMONY OF WITNESS MAYES (USPS-T-25) (ERRATA)
(May 26, 2005)

The United States Postal Service hereby provides notice that it is filing revised pages for inclusion in the Direct Testimony of Virginia Mayes, USPS-T-25. The attached pages replace the pages originally filed in this testimony.

The revisions are necessary to reflect the change from witness Moser to witness Page as the source of the final adjustments, and to reflect revisions to USPS-LR-K-88 and USPS-LR-K-112, which were filed on May 25, 2005. The cost models were changed to adopt the revised overhead factors to be filed shortly by witness Van-Ty-Smith. The cost models were also revised to correct the Test Year Standard Mail volume used to develop the Standard Mail nontransportation cost avoidance per pound. The original volume used in the models had not been adjusted to reflect the lost volume from Standard Mail due to the affects of Negotiated Service Agreements.

The revision makes the following changes:

1. On page 1 at line 13, change "Moser" to "Page".
2. On page 2 at line 7, change "Moser" to "Page".
3. On page 20, in the Standard Mail Destination section of the table, the subsections for Standard Mail Destination Entry Non-transportation Cost

Avoidances and Standard Mail Destination Entry Total Cost Avoidances were updated to reflect the revised numbers in USPS-LR-K-88 and USPS-LR-K-112.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony presents the updated calculation of the transportation and non-transportation components of Standard Mail destination entry cost avoidances, the non-transportation component of Periodicals destination entry cost avoidances, the transportation costs for Parcel Post and for Bound Printed Matter, and the costs of Bulk Parcel Return Service for the test year 2006. These analyses are being provided in light of the Postal Rate Commission's views expressed in Docket No. R94-1. PRC Op., R94-1, Vol. I, at 10. The non-transportation cost avoidances for Standard Mail dropship activity are provided to witness Cutting (USPS-T-26). The cost avoidances associated with Standard Mail and Periodicals dropship activity, the transportation costs of Parcel Post and Bound Printed Matter, and the costs of Bulk Parcel Return Service are provided to witnesses Robinson (USPS-T-27) and Taufique (USPS-T-28). The Parcel Post transportation costs are relied upon by witness Page (USPS-T-23) for use in developing the final adjustments to the rollforward cost forecasting model.

II. GUIDE TO TESTIMONY

The cost models used to estimate the dropship cost avoidances for Standard Mail and Periodicals are found in the Category 2 library reference USPS-LR-K-88. The Parcel Post and Bound Printed Matter transportation cost analyses and the estimation of the cost of Bulk Parcel Return Service are found in the Category 2 library reference USPS-LR-K-89. In addition to these two library references, I am also sponsoring library reference USPS-LR-K-90. Library reference USPS-LR-K-90 contains the description and program documentation of the estimation of the cube-weight relationships for the major rate categories within Parcel Post. The results of the cube-weight analyses are used in the development of the Parcel Post transportation costs in USPS-LR-K-88.

In addition to the material described above, the cost models also rely on data inputs that have been generated by other postal witnesses in this case. Witness Tayman (USPS-T-6) provides productive hourly wage rates (USPS-LR-K-50); Witness Thress (USPS-T-7, Attachment A) provides base year volumes and test year volume forecasts; Witness Smith (USPS-T-13) provides piggyback factors (USPS-LR-K-52); Witness Van-Ty-Smith (USPS-T-11) provides deaveraged wage rates, overhead factors and premium pay factors (USPS-LR-K-55), and volume variability factors (USPS-T-11,

1 Table 1); Witness Taufique (USPS-T-28) provides the volumes associated with the
2 Negotiated Service Agreements (USPS-T-28, Exhibit A), used to adjust the test year
3 volumes; Witness Miller (USPS-T-20) provides the Media Mail average modeled cost
4 and adjustment factors (USPS-K-46); Witness Waterbury (USPS-T-10) provides test
5 year transportation costs (USPS-K-7); Witness Meehan (USPS-T-9) provides base year
6 transportation costs (USPS-LR-K-5); and Witness Page (USPS-T-23) provides the
7 calculated final adjustments to Standard Mail Cost Segments 8 and 14 (USPS-K-59). I
8 also rely on USPS-LR-K-92 (sponsored by witness Loetscher, USPS-T-32) for the mail
9 entry profile of Standard Mail and data on the characteristics of Periodicals Mail; on
10 USPS-LR-K-77 (a Category 1 library reference) for the billing determinants for Parcel
11 Post and Bound Printed Matter; and on the detailed Parcel Post data provided in USPS-
12 LR-K-47 (sponsored by witness Miller, USPS-T-20) for use in developing the estimated
13 cube-weight relationships provided in USPS-LR-K-90.

14 15 **III. STANDARD MAIL DESTINATION ENTRY COST AVOIDANCES**

16 This testimony is an update of the Standard Mail destination entry cost avoidance
17 testimony presented in Docket No. R2001-1, USPS-T-23. In general, the cost
18 methodology that was presented by witness Crum (USPS-T-27) in Docket No. R2000-1
19 has been used again in this docket to develop the destination entry cost avoidances for
20 Standard Mail. The changes in the estimated cost avoidances from those presented in
21 Docket No. R2001-1 are due to the use of new input data and updates of parameters to
22 reflect the most recent available data and a different test year.

23 **A. Standard Mail Destination Entry Transportation Cost Avoidances**

24 The analysis of transportation cost avoidances provided in this case uses the
25 same approach first presented by witness Acheson in Docket No. R90-1, and most
26 recently by witness Mayes (USPS-T-23) in Docket No. R2001-1. The first step in this
27 approach is to calculate the total transportation cost that the Postal Service would avoid
28 if all Standard Mail were entered by the mailers at the destination delivery unit (DDU),
29 the furthest downstream entry point. Under these circumstances, the Postal Service
30 would avoid most purchased transportation costs (cost segment 14) and certain postal-
31 owned vehicle costs (cost segment 8).

**TABLE 1:
OUTPUTS OF USPS COST MODELS AND PRC VERSION COST MODELS**

COST ELEMENT	USPS MODEL OUTPUT	PRC VERSION MODEL OUTPUT
STANDARD MAIL DESTINATION ENTRY		
Transportation Cost Avoidances		
DDU	\$0.1540 per pound	\$0.1541 per pound
DSCF	\$0.1309 per pound	\$0.1309 per pound
DBMC	\$0.1096 per pound	\$0.1096 per pound
Non-transportation Cost Avoidances		
DDU	\$0.0505 per pound	\$0.0570 per pound
DSCF	\$0.0385 per pound	\$0.0429 per pound
DBMC	\$0.0213 per pound	\$0.0236 per pound
Total Cost Avoidances		
DDU	\$0.2045 per pound	\$0.2111 per pound
DSCF	\$0.1694 per pound	\$0.1738 per pound
DBMC	\$0.1309 per pound	\$0.1332 per pound
PERIODICALS DESTINATION ENTRY		
Non-transportation Cost Savings		
DADC	\$0.0058 per pound	\$0.0063 per pound
DSCF	\$0.0266 per pound	\$0.0297 per pound
DDU	\$0.0552 per pound	\$0.0618 per pound
BULK PARCEL RETURN SERVICE	\$1.172 per piece	\$1.268 per piece
BOUND PRINTED MATTER TRANSPORTATION COSTS		
DBMC		
Zone 1 and 2	\$0.055 per pound	\$0.055 per pound
Zone 3	\$0.085 per pound	\$0.085 per pound
Zone 4	\$0.109 per pound	\$0.109 per pound
Zone 5	\$0.197 per pound	\$0.197 per pound
DSCF	\$0.043 per pound	\$0.044 per pound
DDU	\$0.007 per pound	\$0.007 per pound
Non-Dropship		
Zone 1 and 2	\$0.114 per pound	\$0.115 per pound
Zone 3	\$0.127 per pound	\$0.128 per pound
Zone 4	\$0.144 per pound	\$0.144 per pound
Zone 5	\$0.170 per pound	\$0.170 per pound
Zone 6	\$0.197 per pound	\$0.198 per pound
Zone 7	\$0.228 per pound	\$0.228 per pound
Zone 8	\$0.289 per pound	\$0.289 per pound