

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

NOTICE OF UNITED STATES POSTAL SERVICE
OF ERRATA TO TESTIMONY OF WITNESS EGGLESTON

The United States Postal Service hereby gives notice that it is filing the attached errata to the testimony of witness Eggleston, USPS-T-26. The changes are indicated on each page.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1 the BMC. This means that they will incur additional costs associated with receiving a
2 sort at the plant. Since machinable parcels are sorted to 5-digits at the destination
3 BMC, they simply need to be crossdocked at the plant.

4 Another reason why NMOs are more expensive to process than machinable
5 parcels is that they are larger than machinable parcels. In BY98, the average size of a
6 NMO was 1.99 cubic feet and the average size of a machinable parcel was .58 cubic
7 feet. Since NMOs are larger than machinable parcels, fewer fit into each type of
8 container. This is reflected in the model through lower conversion factors. Since
9 conversion factors are used to unitize containerized costs, smaller conversion factors
10 will result in more costs being allocated to each parcel.

11 Table 2 on page 1 of Attachment A displays the modeled and adjusted modeled
12 costs of inter-BMC, intra-BMC and DBMC NMOs. Next, the adjusted modeled costs of
13 NMOs are compared to the adjusted modeled cost of machinable parcels for each of
14 the three rate categories. The estimated cost difference is used by Witness Plunkett to
15 derive the nonmachinable surcharge. The estimated cost differences for inter-BMC,
16 intra-BMC, and DBMC NMOs are 179.0, 117.3, and 127.7 cents respectively.

18 **3. Inter-BMC, Intra-BMC, and DBMC Oversize NMO Cost Difference.**

19 Oversize NMOs are parcels that have a length plus girth between 108 inches
20 and 130 inches. These parcels are more costly to handle than other NMOs for many of
21 the same reasons that NMOs are more costly to handle than machinable parcels.
22 Since oversize parcels are larger than other NMOs, fewer oversize parcels fit in each
23 type of container. This is reflected in the conversion factors shown on page 6 of
24 Attachment A. Since a smaller number of parcels fit into each container, the costs of
25 loading, unloading, and moving that container are distributed among a smaller number
26 of parcels. In addition, while some non-oversize NMOs may be sorted on mechanized
27 equipment, oversize parcels have to be sorted manually.

28 The adjusted modeled costs for inter-BMC, intra-BMC parcels and DBMC
29 oversize NMOs are shown in Table 2 on page 1 of Attachment A. Table 3 on the same
30 page shows the estimated cost differences between the adjusted modeled cost of
31 NMOs and oversize NMOs for each of the three rate categories. The estimated cost
32 differences for inter-BMC, intra-BMC, and DBMC are 1115.5, ~~771.6~~ and ~~563.7~~ cents,

1 Therefore this testimony assumes that DBMC parcels avoid outgoing mail preparation
2 costs at facilities upstream of the BMC.

3 The outgoing mail processing costs that DBMC parcels avoid is shown in row 5
4 on page 2 of Attachment F. The appropriate piggyback factor has already been
5 incorporated into this cost. Next, the unit cost is calculated by dividing the total cost in
6 row 5 by the volume of Parcel Post that is entered upstream of BMC/ASF. This volume
7 is estimated on page 3 of Attachment F. Next, the unit cost in row 7 is multiplied by the
8 wage adjustment factor to derive the estimated mail processing costs avoided by
9 DBMC parcels, **7.4** cents.

11 **2. BMC Presort**

12 The estimated cost savings of BMC presort is shown on page 1 of Attachment G.
13 The cost savings are estimated by subtracting the modeled BMC presorted cost per
14 piece (column 2) from the modeled nonpresorted (inter-BMC) cost per piece (column
15 1).

16 The BMC presorted cost per piece is estimated on page 2 of Attachment G. It is
17 estimated using a methodology similar to the mail processing models discussed in
18 Section III of this testimony. The operations in the model have been changed to reflect
19 the fact that the BMC presorted parcels only need to be crossdocked at the origin BMC.
20 In addition, the conversion factors have been changed to reflect the BMC presort
21 requirements. Machinable parcels must be sorted in a 69 inch pallet box with a
22 minimum of 52 inches of mail in each, and NMOs must be sorted onto pallets with a
23 minimum of height of 42 inches of mail.¹¹

24 The estimated BMC presort unit cost savings is 23.2 cents.
25

¹⁰ Docket No.R97-1, USPS-RT-12.

¹¹ BMC presort requirement from DMM § M045.8.3. The cost analysis assumes that on average the pallet boxes and pallets will be filled halfway between the minimum requirement and the maximum fullness.

3. Origin BMC

The estimated cost savings of Origin BMC (OBMC) parcels are shown on Attachment H page 1. Since the OBMC discount is off the inter-BMC rate, the cost savings are the costs avoided by an OBMC parcel compared to an inter-BMC parcel. The estimated cost savings has two parts. The first part is the costs an OBMC parcel avoids by being dropped at the origin BMC. Since they avoid the costs at the facilities upstream of the BMC, these costs are equivalent to the costs a DBMC parcel avoids.¹² The second part of the cost savings is the cost avoided by the OBMC parcels being presorted by destination BMC. These avoided costs are the same costs a BMC-presorted parcel avoids. Therefore, the estimated costs avoided by an OBMC parcel are the sum of the DBMC unit cost savings and the BMC presort unit cost savings. This estimated OBMC cost savings is 91.1 cents.

4. DSCF

The estimated cost savings of a DSCF parcel compared to a DBMC parcel is shown on Attachment I page 1. The cost savings are estimated by comparing the modeled costs of DBMC in Section III of this testimony to the modeled cost of DSCF parcels. DSCF modeled costs are calculated using a mail processing model similar to the models discussed in Section III of this testimony. Machinable, NMO, and oversize NMO DSCF parcels are modeled separately. The inputs to the mail processing model have been changed to reflect the DSCF requirements. The requirements for DSCF give mailers several options.¹³ As mentioned earlier, since there was not enough time to gather adequate detailed data, assumptions had to be made in the cost analysis. These assumptions were made in a manner that would mitigate the probability of overstating cost savings.

¹² Although both DBMC and OBMC parcels avoid the costs at facilities upstream of the BMC, DBMC parcels avoid these costs compared to an intra-BMC parcels while OBMC parcels avoid these costs compared to inter-BMC parcels.

¹³ Options for pallets include: (1) minimum 50 pieces and 250 lbs OR 36 inches of mail on a pallet, (2) minimum of 35 pieces and 200 lbs on a pallet with a documented average of 50 pieces on a pallet. Sacks can also be used with a minimum of 7 parcels per sack. Sacks could be bedloaded or palletized. Overflow sacks can also be used with the pallets.

PARCEL POST MAIL PROCESSING COST SUMMARY AND DEVELOPMENT

Table 1: Nonmodel Cost Factor Development

Weighted Avg Model Cost	1/	\$0.840
Proportional Cost Pools	2/	\$0.970
CRA Proportional Adjustment	3/	1.154
CRA Fixed Adjustment	4/	\$0.307

Table 2: Total Cost Development

	Model Cost [1]	Proportional Adjustment [2]	Fixed Adjustment [3]	Adjusted Cost [4]
Inter Mach	\$1.206	1.154	0.307	\$1.698
Inter NMO	\$2.757	1.154	0.307	\$3.489
Inter NMO > 108"	\$10.873	1.154	0.307	\$12.854
Intra Mach	\$0.922	1.154	0.307	\$1.371
Intra NMO	\$1.939	1.154	0.307	\$2.544
Intra NMO > 108"	\$7.609	1.154	0.307	\$9.087
DBMC Mach	\$0.673	1.154	0.307	\$1.084
DBMC NMO	\$1.780	1.154	0.307	\$2.361
DBMC >108"	\$5.558	1.154	0.307	\$6.721

Table 3: Unit Cost Difference Summary

	Costs
Intra mach cost savings (compared to Inter mach)	6/ \$0.328
Cost Data to support NMO surcharge	
Inter NMO cost difference	5/ \$1.790
Intra NMO cost difference	7/ \$1.173
DBMC NMO cost difference	8/ \$1.277
Cost Data to support NMO >108 rate	
Inter NMO > 108 cost difference	9/ \$11.155
Intra NMO > 108 cost difference	10/ \$7.716
DBMC NMO > 108 cost difference	11/ \$5.637

Sources

- Row 1/: Weighted average model costs from Attachment A pages 7 to 15.
Row 2/: Sum of CRA costs in proportional pools, Attachment A page 2 divided by 100 to convert to dollars.
Row 3/: Proportional cost pools divided by weighted averaged modeled costs.
Row 4/: Sum of CRA costs in fixed costs pools, Attachment A, page 2 divided by 100 to convert to dollars.
Row 5/: Total costs of inter NMO [4] minus total costs of inter mach [4].
Row 6/: Total costs of inter mach [4] - total costs of inter mach [4].
Row 7/: Total costs of intra NMO [4] minus total costs of intra mach [4].
Row 8/: Total cost of DBMC NMO [4] minus total cost of DBMC mach [4].
Row 9/: Total cost of inter mach > 108 [4] minus total cost of inter mach [4].
Row 10/: Total cost of intra NMO > 108 [4] minus total cost of intra mach [4].
Row 11/: Total cost of DBMC NMO > 108 [4] minus total cost of DBMC mach [4].
Column [1]: Model costs from Attachment A, pages 7 to 15.
Column [2]: Proportional CRA adjustment factor = row (3).
Column [3]: Fixed CRA adjustment factor = row (4).
Column [4]: Total Costs = model costs times proportional adjustment plus fixed adjustment.

Non-Transportation Cost Savings Summary

Rate Category		Modeled Cost Difference
BMC Presort Modeled Cost Savings	1/	\$0.232
DBMC Cost savings	2/	
Window Acceptance Modeled Cost Savings	3/	\$0.105
Mail Processing Modeled Cost Savings	4/	
OBMC	5/	
Window Acceptance Modeled Cost Savings	6/	\$0.105
Mail Processing Modeled Cost Savings	7/	
BMC Presort Modeled Cost Savings	8/	\$0.232
DSCF		
Modeled Cost Savings	9/	\$0.428
Additional Cost of Oversize (DSCF oversize NMO modeled cost -DSCF mach modeled cost)	10/	\$3.640
DDU		
Weighted average of DDU mach and NMO modeled cost savings.	11/	\$0.730
NMO oversize DDU Modeled Cost Savings (compared to DBMC)	12/	\$5.558

Sources

Row 1/: Attachment G, page 1, row 6.
Row 2/: Row (3) + row (4).
Row 3/: Attachment F, page 1, row 16.
Row 4/: Attachment F, page 2, row 10.
Row 5/: Row (6) + row (7) + row (8).
Row 6/: Attachment H, page 1, row 1.
Row 7/: Attachment H, page 1, row 2.
Row 8/: Attachment H, page 1, row 3.
Row 9/: Attachment I, page 1, row 12.
Row 10/: Attachment I, page 1, row 9.
Row 11/: Attachment J, page 1, row 4.
Row 12/: Attachment J, page 1, row 5.

Outgoing Mail Processing Costs at Non-BMC Facilities Avoided by DBMC Parcel Post

BY 1998 Outgoing Mail Processing Costs (excluding BMCs)	\$54,434,000	1/
Outgoing ASF Costs	\$2,062,000	2/
Percent of time ASFs act like BMCs	36.10%	3/
Non-BMC outgoing platform acceptance cost	\$959,273	4/
Total	\$52,730,312	5/
BY 98 Parcel Post Volume Entered Upstream of BMC/ASF	103,204,088	6/
Unit Costs Avoided	\$0.511	7/
Wage Rate Adjustment Factor	1.124	8/
Estimated Test Year Costs Avoided	\$0.574	9/

Sources

- Row 1/: LR-I-103.
Row 2/: LR-I-103.
Row 3/: USPS-T-26, Attachment Y, page 2.
Row 4/: Outgoing OP7 costs from LR-I-103 multiplied by cost pool piggyback factors.
Row 5/: (Row (1) - [row (2) * row (3)] - row (4)).
Row 6/: Attachment E, page 1 (RPW).
Row 7/: Row (5) / row (6).
Row 8/: Attachment D, page 1, mail processing wage adjustment factor.
Row 9/: Row (7) * row (8).

Volume of Parcel Post Pieces Entered Upstream of BMC/ASF

Estimate of Inter-BMC Parcel Post volume deposited at BMCs by mailers in FY1998	2,581,270 1/
Proportion of Inter-BMC volume deposited at BMC by mailers	0.0448 2/
FY 1998 Inter-BMC Volume	64,314,058 3/
Total Piece Volume Plantloaded to BMCs	349,447 4/
Proportion of Parcel Post volume that is plantloaded by USPS	0.5% 5/
Proportion of Plantloaded Piece volume that is plantloaded to BMCs	68.4% 6/
FY 1998 non-DBMC Parcel Post Volume	106,434,805 7/
FY 1998 DBMC Volume	209,712,994 8/
Total Piece Volume Plantloaded to or Deposited (by a mailer) at a BMC or beyond	212,943,711 9/
FY 1998 Total Parcel Post Volume	316,147,799 10/
Total Piece Volume Plant Loaded to or Deposited Upstream of a BMC/ASF	103,204,088 11/

Sources

- Row 1/: Row (2) * row (3).
Row 2/: Docket R97-1, USPS-T-28, Exhibit B.
Row 3/: Attachment E, page 1, inter-BMC volume.
Row 4/: Row (5) * row (6) * row (7).
Row 5/: 1993 Plant load study, R94-1, LR-G-157.
Row 6/: Docket No. R90-1 USPS-T-12, page 25.
Row 7/: Attachment E, page 1. inter-BMC volume + intra-BMC volume.
Row 8/: Attachment E, page 1, DBMC volume.
Row 9/: Row (1) + row (4) + row (8).
Row 10/: Attachment E, page 1.
Row 11/: Row (10) - row (9).

**Costs Avoided by Depositing Inter-BMC Parcels at the
Origin BMC with Presort to the Destination BMC**

DBMC Savings		
Window Acceptance	0.105	1/
Mail Processing	0.574	2/
Total BMC Presort Related Savings	0.232	3/
Total OBMC Mail Processing Savings	0.911	4/

Sources

Row 1/: Attachment F, page 1, row 16.
Row 2/: Attachment F, page 2, row 10.
Row 3/: Attachment G, page 1, row 6.
Row 4/: Row (1) + row (2) + row (3).

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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", is written over a horizontal line.

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