USPS-RT-21

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

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000-1

REBUTTAL TESTIMONY
OF
SCOTT J. DAVIS
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Scott J. Davis. I am an Economist in Special Studies within Activity-Based Management, Finance at Postal Service Headquarters. I began working for the Postal Service in 1998. My primary responsibilities include developing costs for special services; assisting with the development of cost models for flat-shaped mail; and analyzing mail preparation requirements and discount eligibility rules. I have spent time in field offices while conducting cost studies and participating in committees. I have visited over thirty postal facilities including Associate Offices, Processing and Distribution Centers, Bulk Mail Centers, and Airport Mail Centers.

Prior to joining the Postal Service, I served as a Staff Accountant at Reston Hospital Center in Reston, VA. I performed general accounting duties including budget preparation, review of financial statements, and analysis and reconciliation of accounts.

I received a bachelor's degree in Economics from Duke University and a Master's of Business Administration degree from the School of Business at the College of William and Mary.

I. PURPOSE AND SCOPE OF TESTIMONY

The purpose of my testimony is to rebut witness Zimmerman's (PSA-T-1) proposals that there be no charge for Delivery Confirmation for electronic manifest Parcel Select mailers, and that the Postal Service scan every parcel at delivery. This testimony rebuts from a costing perspective rather than a policy perspective. This testimony demonstrates that even under costing assumptions less conservative than those which underlie the Delivery Confirmation costs presented in my direct testimony, there remain unit volume variable costs associated with the Delivery Confirmation electronic option for Standard Mail parcels.

II. GUIDE TO SUPPORTING DOCUMENTATION

Supporting documentation to this testimony is Library Reference I-108. Only one worksheet in that model has been changed for purposes of this testimony; linked worksheets update automatically. This testimony explains the changes made to the MS Excel model presented in LR-I-108. I do not have any other workpapers.

III. DELIVERY CONFIRMATION

A. A charge for the Delivery Confirmation electronic option for Standard Mail (B) is appropriate since the Postal Service incurs costs in providing this service.

The testimony of witness Zimmerman (PSA-T-1) states at page 20, lines 14-17:

> There should be no charge to an electronic manifest Parcel Select mailer. That mailer's reduced rates are predicated on the work sharing performed by that mailer. It is very short-sighted for the Postal Service to selectively decide what kind of parcels they will maintain information about.

That the electronic option entails worksharing by the customer, and thus reduced cost to the Postal Service, is not disputed. A user of the electronic option is required to apply a Delivery Confirmation (DC) barcode to the mailpiece, submit an electronic manifest of the mailing of DC items to the Postal Service, and receive information about DC items electronically or through the Internet, rather than through the call center. These mailer-performed functions allow the Postal Service to avoid costs associated with acceptance, supplies (labels), and corporate call management. However, such worksharing does not replace all postal activities associated with providing the service. The Postal Service still incurs costs by scanning the DC item at delivery. The Postal Service also incurs a small information systems cost in transmitting data. I have presented a conservative estimate of these component costs in my direct testimony, USPS-T-30, p. 6.

B. Even under less conservative costing assumptions than those which underlie the Delivery Confirmation costs presented in USPS-T-30, unit volume variable costs associated with the electronic Delivery Confirmation option for parcels remain.

The Delivery Confirmation test year unit volume variable costs presented in USPS-T-30, and supported by USPS-LR-I-108, are derived under a set of conservative assumptions. The resulting unit volume variable costs, therefore, may be viewed as conservatively high.

Specifically, in deriving the Delivery Confirmation costs presented in USPS-T-30, it was assumed (1) that no carrier scanning time would be absorbed in other carrier activities; (2) that box section clerks would retrieve the handheld scanner from and return the handheld scanner to the cradle for each and every scan; and (3) that window clerks would retrieve the handheld scanner from and return the handheld scanner to the cradle for each and every scan. In evaluating witness Zimmerman's testimony, I discussed with Delivery Confirmation operations experts whether there might be any assumptions which would justify witness Zimmerman's apparent conclusion (at PSA-T-1, p. 20, lines 14-23) that there are no significant costs for electronic DC for Standard Mail parcels. I was advised that the assumptions in my original testimony might be overly conservative, and that alternative assumptions would be more realistic. Nonetheless, even under these assumptions, I found that there are still significant volume variable costs for electronic DC. I discuss these alternative assumptions below.

1. *Assume that 50 percent of carriers' DC base transaction time is absorbed by other carrier activities. These activities include walking to the next delivery point, and deviation from regular delivery ("delivery deviation") caused by a host mailpiece that cannot be placed in the mail receptacle. The carrier's delivery deviation includes wait time at door.*

The Delivery Confirmation cost study in my direct testimony assumed that none of the time required for scanning would be absorbed by the time required for non-DC activities. However, carriers can retrieve the handheld scanner en route to the next delivery point when they recognize they will need to scan an item at that delivery point. Furthermore, when delivering DC mail items that are too large to fit into a given mail receptacle, carriers will attempt to contact the addressee to deliver the item. The carriers can retrieve and ready their scanners while waiting for the addressee. Therefore, the time required to retrieve and ready scanners for use is absorbed by the time either en route to the addressee or while waiting for the addressee.

Similarly, carriers can return or holster their scanners after use while en route to the next delivery point. The carriers can also return or holster their scanners while returning to the normal route from which they have deviated. Therefore, the time required to return or holster scanners after use is absorbed either while en route to the next delivery point or during the delivery deviation caused by the host mailpiece.

Under these conditions DC causes no additional time (or costs) for these scanner retrieval and return activities, but the 2.46 seconds (from Docket No.

R97-1, USPS-T-22, p. A-1, Table A-1) required for machine scan time still remains.

Based on discussions with Delivery Services, a reasonable assumption is that 50 percent of the carriers' DC base transaction time is absorbed by the carrier activities described above. This assumption is incorporated into the Excel model in USPS-LR-I-108 Section B (filename "del con input cost data.xls"; worksheet tab "I-1", "Input Sheet B-1: Activity Transaction Times"; cells D9, D10, D13, D14) by multiplying the base transaction time for city and rural carriers' successful and attempted deliveries by a 0.50 factor.

2. Assume that for 100 percent of DC pieces delivered (or attempted for delivery) by box section clerks, there are no volume variable costs other than the 2.46 seconds of machine scan time.

The cost study in my direct testimony assumed that box section clerks would not only retrieve the handheld scanner from the cradle for each scan, but also return the scanner to the cradle after each scan. However, to maximize efficiency, box section clerks may scan multiple DC mail items together, along with accountable mail requiring electronic signature capture. Thus, any individual DC transaction does not cause additional costs for retrieving the scanner from the cradle before use and returning the scanner to the cradle following use. It can be assumed, then, that the unit volume variable cost for box section clerks is limited to the 2.46 seconds of machine scan time. This assumption is incorporated into the Excel model in USPS-LR-I-108 Section B (filename "del con input cost data.xls";

worksheet tab "I-1", "Input Sheet B-1: Activity Transaction Times"; cells D11, D15) by replacing the original base transaction time for box section clerks' successful and attempted deliveries with 2.46 seconds.

3. Assume that for 50 percent of DC pieces delivered (or attempted to be delivered) by window clerks, POS One technology will be available and utilized for scanning. For these pieces, no volume variable costs other than the 2.46 seconds of machine scan time would be assumed.

The cost study in my direct testimony assumed that window clerks would not only retrieve the handheld scanner from the cradle for each scan, but also return the scanner to the cradle after each scan. However, POS One technology has been deployed in many offices. POS One will allow window clerks to scan DC barcodes without having to use a handheld scanner, so that a handheld scanner need not be retrieved from or returned to the cradle for each scan. The best assumption for the test year is that 50 percent of DC window clerk transactions will be at windows with POS One technology. This assumption is incorporated into the Excel model in USPS-LR-I-108 Section B (filename "del con input cost data.xls"; worksheet tab "I-1", "Input Sheet B-1: Activity Transaction Times"; cell D12) by multiplying the scanner retrieval and replacement time for window clerks' deliveries by a 0.50 factor. Mechanically, replace the base transaction time in cell D12 with the formula "=(0.5*6.39)+2.46", where 0.5 is the proportion factor, 6.39 represents the scanner retrieval and replacement time in seconds (embedded in the original base transaction time), and 2.46 is the machine scan time in seconds that applies to each transaction.

IV. RESULTS AND CONCLUSIONS

Even under a more realistic, less conservative set of costing assumptions, unit volume variable costs exist for the Delivery Confirmation electronic option. Based on these three revised assumptions, the resulting delivery costs are $0.073, and the resulting total unit volume variable cost for the Standard Mail electronic option is $0.079. See Table 1 below. The presence of unit volume variable costs associated with scanning at delivery challenges witness Zimmerman's notion (at PSA-T-1, p. 20, lines 15-19) that the Postal Service should scan every parcel. Furthermore, the presence of unit volume variable costs also supports and justifies a Delivery Confirmation fee for electronic manifest Parcel Select mailers.

Table 1:
Test Year Delivery Confirmation Unit Volume Variable Costs Under Less Conservative Costing Assumptions[1]

Cost Category	Standard Mail Electronic
Acceptance	$0.000
Delivery[2]	$0.073
Postmasters	$0.001
Corporate call management	$0.000
Information systems	$0.005
Supplies	$0.000
Total volume variable cost	$0.079

[1] Source: USPS-T-30, p. 7, Table 1, substituting new Delivery cost.
[2] Revised delivery cost of $0.073 also applies to Standard Mail retail and Priority Mail DC cost estimates.