

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

DIRECT TESTIMONY  
OF  
NORMA B. NIETO  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

## TABLE OF CONTENTS

|  |    |
|--|----|
| AUTOBIOGRAPHICAL SKETCH.....                                 | ii |
| I. PURPOSE AND SCOPE OF TESTIMONY.....                       | 1  |
| II. GUIDE TO SUPPORTING DOCUMENTATION .....                  | 2  |
| II. DELIVERY CONFIRMATION.....                               | 3  |
| A. Overview .....  | 3  |
| B. Methodology .....   | 4  |
| C. Results .....   | 5  |
| III. SIGNATURE CONFIRMATION .....                            | 8  |
| A. Overview .....  | 8  |
| B. Methodology .....   | 9  |
| C. Results .....   | 10 |
| IV. ENHANCEMENTS TO CERTIFIED MAIL AND REGISTERED MAIL ..... | 12 |
| A. Overview .....  | 12 |
| B. Methodology .....   | 12 |
| C. Results .....   | 13 |
| V. RETURN RECEIPT COST UPDATES .....                         | 14 |
| A. Overview .....  | 14 |
| B. Methodology .....   | 15 |
| C. Results .....   | 16 |

Sponsored Library References:

USPS-LR-J-135  
USPS-LR-J-136

Direct Testimony  
Of  
Norma B. Nieto

AUTOBIOGRAPHICAL SKETCH

1           My name is Norma B. Nieto. I am a Principal Consultant at  
2   PricewaterhouseCoopers LLP (hereafter PwC), where I have worked since 1993.  
3   During that time, I have worked on many consulting projects for the United States  
4   Postal Service, specializing in financial and statistical analysis, with an emphasis  
5   on cost systems, including the Transportation Cost System (TRACS).

6           Most recently, I have supported Special Services management in the  
7   development of new enhancements to certified mail and return receipts, with a  
8   focus on costing the enhancements and changes. My experience with the Postal  
9   Service also includes cost analysis in areas such as transportation, labor,  
10   buildings, product feasibility analysis, marketing studies, and capital evaluation  
11   projects.

12          Over the past seven years, I have visited a number of Postal Service field  
13   offices including airport mail facilities (AMFs), bulk mail centers (BMCs),  
14   processing and distribution centers (P&DCs), and associate post offices (AOs).

15          In Docket No. R97-1, I testified as a witness before the Postal Rate  
16   Commission on behalf of the Postal Service on the Transportation Cost System  
17   (TRACS).

1

2           My academic background includes a bachelor's degree in Industrial  
3 Management and Economics from Carnegie Mellon University in 1993, with  
4 course work in statistics, and a Masters in Business Administration from the  
5 Kellogg Graduate School of Management at Northwestern University in 2000  
6 where I specialized in Marketing and Strategy.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is to present estimated Test Year unit  
3 volume variable costs in support of a number of special service fees proposed by  
4 witness Mayo (USPS-T-36). The special services covered in my testimony  
5 include: Delivery Confirmation, Signature Confirmation, return receipts, and the  
6 enhancement to certified mail and registered mail.

7 Section 2 of my testimony provides updated Test Year costs for Delivery  
8 Confirmation service for Priority Mail and Package Services. New unit volume  
9 variable costs are estimated for both manual and electronic Delivery  
10 Confirmation for Parcel Select and First-Class Mail (Letters and Sealed Parcels)  
11 parcels, and for electronic Delivery Confirmation for Standard Mail. These  
12 estimates rely largely on the methodologies and cost estimates of witness Davis  
13 (USPS-T-30) in Docket No. R2000-1. I also provide unit cost estimates to  
14 witnesses Scherer (USPS-T-30) and Kiefer (USPS-T-33), since portions of my  
15 cost results are included in the underlying Priority Mail subclass and Parcel  
16 Select rate categories.

17 Section 3 of my testimony provides estimated Test Year costs for  
18 Signature Confirmation service. Unit volume variable costs are estimated for  
19 both manual and electronic options for parcels in the Letters and Sealed Parcels  
20 and Priority Mail subclasses of First-Class Mail, and Package Services (including  
21 the Parcel Select rate categories). These estimates also rely largely on the

1 methodologies and cost estimates of witness Davis (USPS-T-30) in Docket No.  
2 R2000-1.

3       Section 4 contains updated Test Year costs for a number of accountable  
4 mail services. Updates to unit costs have been performed for non-merchandise  
5 return receipts, and for return receipts for merchandise. New analysis and  
6 studies have been performed to develop costs reflecting the new enhancements  
7 to certified mail, registered mail, and return receipts after mailing; and to develop  
8 unit costs for the new electronic return receipts. In addition to witness Mayo, new  
9 costs and cost differentials resulting from the enhancements are provided to  
10 witness Patelunas (USPS-T-12) and witness Kay (USPS-T-21), so that Test Year  
11 CRA costs for certified mail, registered mail, and return receipts reflect the  
12 changes in the operating environment due to the planned product feature  
13 changes.

## 14 II. GUIDE TO SUPPORTING DOCUMENTATION

15       In addition to this testimony, Library Reference USPS-LR-J-135 presents  
16 my detailed cost analyses and spreadsheets. I do not have any other  
17 workpapers.

18       I am also sponsoring USPS-LR-J-136, which presents estimated volume  
19 adjustments in support of Test Year After Rates volumes for certified mail and  
20 return receipts presented by witness Tolley (USPS-T-7), and return receipts and  
21 Signature Confirmation volumes presented by witness Mayo (USPS-T-36).

1 II. DELIVERY CONFIRMATION

2 A. Overview

3 Delivery Confirmation is a special service that provides the mailer with  
4 information about the date and time a mailpiece was delivered. Information  
5 regarding the date and time of any attempted delivery is also provided. Delivery  
6 Confirmation is offered at the time of mailing in one of two forms: the electronic  
7 option and the manual (or retail) option. In the electronic option, the mailer is  
8 required to create and apply a Delivery Confirmation barcode to the mailpiece,  
9 and receive information about Delivery Confirmation items through the Internet.  
10 Pieces mailed under the electronic option must be identified in an electronic  
11 manifest provided to the Postal Service. In the manual option, customers  
12 purchase Delivery Confirmation through the retail window. Delivery Confirmation  
13 service is available for Priority Mail, Package Services, and Standard Mail  
14 (electronic option only). The Postal Service is proposing to extend Delivery  
15 Confirmation to parcels in the Letters and Sealed Parcels subclass of First-Class  
16 Mail, and to include some costs for Parcel Select Delivery Confirmation in the  
17 Parcel Select rate categories.

18 This testimony contains a few changes to witness Davis' analysis in  
19 Docket No. R2000-1 (USPS-T-30). New unit costs for Delivery Confirmation are  
20 provided for Parcel Select and parcels in the Letters and Sealed Parcels  
21 subclass. New analysis improves estimates of the volume variable costs of using  
22 the Delivery Confirmation scanners at delivery for rural carriers. Additionally, the

1 scanning study has been updated to reflect the absorption of carrier DC  
2 transaction time by other carrier and clerk activities (as first discussed by witness  
3 Davis in Docket No. R2000-1, USPS-RT-21).

4 My testimony also reflects the availability of updated information.  
5 Corporate call management costs have been updated. Updated operational  
6 information on accessing information has also been incorporated.

## 7 B. Methodology

8 Scanning times at delivery were determined using the application of  
9 Methods Time Measurement (MTM) time standards developed by witness Davis  
10 in Docket No. R2000-1 combined with the average time required per scan of 2.46  
11 seconds developed by witness Treworgy (Docket No. R97-1, USPS-T-22,  
12 Appendix A).

13 The MTM analysis was applied to each of three categories of personnel  
14 (city carriers, box section clerks, and window clerks) who deliver Delivery  
15 Confirmation mailpieces. USPS-LR-I-108 / Docket No. R2000-1 at 1-9, presents  
16 the applicable MTM standards for each of these three categories. For delivery by  
17 rural carriers, I use a new time study provided by Expedited and Package  
18 Services (USPS-LR-J-135, Input Sheet B-1).

19 Following witness Davis' methodology, I adjusted the overall transaction  
20 time to account for circumstances in which the barcode cannot be scanned. The  
21 calculations to arrive at this adjustment factor are presented in USPS-LR-J-135,  
22 Worksheet B-2.



1           Also, window acceptance costs for manual Delivery Confirmation service  
2 have been adjusted in this testimony to account for the 16.4 percent of manual  
3 DC volume that is entered by mailers into collection boxes rather than at the  
4 window. The window acceptance scans are bypassed for these pieces.

5           All time studies are adjusted to account for time that is absorbed in other  
6 operations (based on Docket No. R2000-1, USPS-RT-21). Carrier time is  
7 reduced by fifty percent to account for time absorbed when carriers are walking  
8 to the next delivery point, or are already deviating from the route because they  
9 are delivering a parcel. Time for box section clerks caused by Delivery  
10 Confirmation is limited to the 2.46 seconds of machine scan time (excluding  
11 removing or replacing the scanner). Window clerk time is also adjusted to  
12 account for POS One technology.

13           Manual Delivery Confirmation customers can receive Delivery  
14 Confirmation information through either the Internet or the corporate call  
15 management (CCM) system. Within the CCM system, information is provided  
16 two ways: (1) the interactive voice response (IVR) system and (2) customer  
17 service agents. I include call center costs that reflect operational results, as  
18 observed by Expedited and Package Services.

19  
20       C. Results

21           Table 1 presents the total test year volume variable Delivery Confirmation  
22 costs for Priority Mail electronic service, Priority Mail manual service, Package

1 Services electronic service, Package Services manual service, Parcel Select  
2 electronic service, Parcel Select manual service, parcels in the Letters and  
3 Sealed Parcels subclass electronic service, parcels in the Letters and Sealed  
4 Parcels subclass manual service, and Standard electronic service. For each  
5 service type, the volume variable costs are presented by cost category and in  
6 total. For Priority Mail and Parcel Select Delivery Confirmation service, this  
7 testimony also presents the cost net of the costs for Priority Mail and Parcel  
8 Select electronic service, since those costs are included in and paid for by  
9 Priority Mail and Parcel Select, rather than by the Delivery Confirmation service.

**Table 1: Test Year Delivery Confirmation Unit Volume Variable Costs**

| <u>Cost Category</u>                 | <u>Priority Mail<br/>Electronic</u> | <u>Priority Mail<br/>Manual</u> | <u>Package<br/>Services<br/>Electronic</u> | <u>Package<br/>Services<br/>Manual</u> |
|--------------------------------------|-------------------------------------|---------------------------------|--|--|
| Acceptance                           | \$0.0000                            | \$0.2382                        | \$0.0000                                   | \$0.2382                               |
| Delivery                             | \$0.0804                            | \$0.0804                        | \$0.0804                                   | \$0.0804                               |
| Postmasters                          | \$0.0000                            | \$0.0022                        | \$0.0006                                   | \$0.0022                               |
| Corporate call management            | \$0.0000                            | \$0.0707                        | \$0.0000                                   | \$0.0707                               |
| Information systems                  | \$0.0047                            | \$0.0039                        | \$0.0047                                   | \$0.0039                               |
| Supplies                             | \$0.0000                            | \$0.0110                        | \$0.0000                                   | \$0.0110                               |
| Total volume variable cost           | <b>\$0.0851</b>                     | <b>\$0.4064</b>                 | <b>\$0.0858</b>                            | <b>\$0.4064</b>                        |
| Less: Cost allocated to base product | \$0.0851                            | \$0.0851                        | N/A  | N/A                                    |
| <b>Net volume variable cost</b>      | <b>\$0.0000</b>                     | <b>\$0.3213</b>                 | <b>\$0.0858</b>                            | <b>\$0.4064</b>                        |

**Table 1: Test Year Delivery Confirmation Unit Volume Variable Costs**

| <u>Cost Category</u>                 | <u>Parcel<br/>Select<br/>Electronic</u> | <u>Parcel<br/>Select<br/>Manual</u> | <u>Letters<br/>and<br/>Sealed<br/>Parcels<br/>Electronic</u> | <u>Letters<br/>and<br/>Sealed<br/>Parcels<br/>Manual</u> | <u>Standard<br/>Mail<br/>Electronic</u> |
|--------------------------------------|---|-------------------------------------|--|--|---|
| Acceptance                           | \$0.0000                                | \$0.2382                            | \$0.0000   | \$0.2382   | \$0.0000                                |
| Delivery                             | \$0.0804                                | \$0.0804                            | \$0.0804   | \$0.0804   | \$0.0804                                |
| Postmasters                          | \$0.0000                                | \$0.0022                            | \$0.0006   | \$0.0027   | \$0.0006                                |
| Corporate call management            | \$0.0000                                | \$0.0707                            | \$0.0000   | \$0.0707   | \$0.0000                                |
| Information systems                  | \$0.0047                                | \$0.0039                            | \$0.0047   | \$0.0039   | \$0.0047                                |
| Supplies                             | \$0.0000                                | \$0.0110                            | \$0.0000   | \$0.0110   | \$0.0000                                |
| Total volume variable cost           | <b>\$0.0851</b>                         | <b>\$0.4064</b>                     | <b>\$0.0858</b>  | <b>\$0.4069</b>  | <b>\$0.0858</b>                         |
| Less: Cost allocated to base product | \$0.0851                                | \$0.0851                            | N/A  | N/A  | N/A                                     |
| <b>Net volume variable cost</b>      | <b>\$0.0000</b>                         | <b>\$0.3213</b>                     | <b>\$0.0858</b>  | <b>\$0.4069</b>  | <b>\$0.0858</b>                         |

1 III. SIGNATURE CONFIRMATION

2  
3 A. Overview

4  
5 Signature Confirmation is a special service that provides the mailer with  
6 access to Delivery Confirmation information and a copy of the recipient's  
7 signature upon request. Like Delivery Confirmation, Signature Confirmation is  
8 available only at the time of mailing and is available in one of two forms: the  
9 electronic option and the manual (or retail) option. In the electronic option, the  
10 mailer is required to create and apply a Signature Confirmation barcode to the  
11 mailpiece, and the pieces must be identified on an electronic manifest provided  
12 to the Postal Service. In the manual option, customers purchase the Signature  
13 Confirmation service at the retail window. Under either option, customers may  
14 request the signature information (but not the delivery information) via the  
15 Internet or the call center. Eligible matter for Signature Confirmation includes  
16 Priority Mail and Package Services, and the Postal Service proposes to extend  
17 Signature Confirmation to parcels in the Letters and Sealed Parcels subclass of  
18 First-Class Mail.

19 This testimony bases Signature Confirmation costs on Delivery  
20 Confirmation costs. Some cost components are modified to reflect operational  
21 differences between Signature Confirmation and Delivery Confirmation.  
22 Specifically, the Signature Confirmation operations during delivery and provision  
23 of information to customers differ from those of Delivery Confirmation.

1

## 2 B. Methodology

3

4 The primary difference between Delivery Confirmation and Signature  
5 Confirmation is that Signature Confirmation requires collection of the recipient's  
6 signature. Therefore, the operational process of Signature Confirmation includes  
7 acquiring the recipient's signature on a Postal Service (PS) Form 3849, scanning  
8 the PS Form 3849 barcode, optically scanning the hardcopy signature into an  
9 electronic database, and providing a copy of the signature to the customer upon  
10 request.

11 As with Delivery Confirmation electronic service, Signature Confirmation  
12 electronic service causes no additional acceptance costs. The mailer applies the  
13 barcoded ID label to each item and generates an electronic record of these items  
14 prior to acceptance. Acceptance costs for Signature Confirmation manual  
15 service are the same as acceptance costs for Delivery Confirmation manual  
16 service, since the underlying operational activities are identical.

17 The delivery function is different in Signature Confirmation than in Delivery  
18 Confirmation. The need to obtain the recipient's signature causes the carrier to  
19 go to the door, and wait to obtain the recipient's signature. The cost of these  
20 additional activities is estimated using witness Davis' methodology (Docket No.  
21 R2000-1, USPS-T-30) of subtracting the rural and city unit delivery costs of  
22 delivering the host mailpiece (the mailpiece on which Signature Confirmation is  
23 purchased) from the rural and city unit delivery costs for certified mail (which

1 requires a signature). The Priority Mail, Package Services, and Parcel Select  
2 products use Priority Mail delivery costs as a proxy for the host mailpiece, while  
3 the Letters and Sealed Parcels subclass First-Class Mail parcels and Standard  
4 Mail use the First-Class Mail Letters and Sealed Parcels (without cards) delivery  
5 cost as a proxy for the host mailpiece cost. See USPS-LR-J-135, Input Sheet B-  
6 4, for the detailed calculations.

7 As established by witness Davis, Signature Confirmation has more  
8 scanning-related time than Delivery Confirmation. In addition to the 2.46 seconds  
9 of scan time for the mailpiece barcode in the Delivery Confirmation service,  
10 another 2.46 seconds has been added for the scan time of the PS Form 3849  
11 barcode. In addition, the time to return the scanner is included in the analysis,  
12 but not the time to retrieve the scanner since this activity can be performed while  
13 the carrier is waiting for the addressee.

14 I have also used updated information reflecting actual operational results  
15 since the implementation of Signature Confirmation earlier this year. This  
16 information includes updated call center / Internet information request  
17 percentages, mail and fax signature information percentages, and operational  
18 changes in the process of sending signature information to mailers.

19  
20 C. Results

21  
22 Table 2 presents the total volume variable costs for Priority Mail and  
23 Package Services electronic service, parcels in the Letters and Sealed Parcels

1 subclass electronic service, Priority Mail and Package Services manual service,  
 2 and parcels in the Letters and Sealed Parcels subclass manual service. For each  
 3 service type, the volume variable costs are presented by cost category and in  
 4 total. A volume-weighted average is also presented across electronic service  
 5 and manual service.

| <b>Table 2: Test Year Signature Confirmation Unit Volume Variable Costs</b> |   |   |   |   |
|---|---|---|---|---|
|   | <b>Electronic</b>                                 |   | <b>Manual</b>                                     |   |
| <b>Cost Category</b>  | <b>Priority Mail<br/>and Package<br/>Services</b> | <b>Letters and<br/>Sealed<br/>Parcels</b> | <b>Priority Mail<br/>and Package<br/>Services</b> | <b>Letters and<br/>Sealed<br/>Parcels</b> |
| Acceptance  | \$0.0000  | \$0.0000                                  | \$0.2382  | \$0.2382                                  |
| Delivery  | \$1.0242  | \$1.2117                                  | \$1.0242  | \$1.2117                                  |
| Postmasters   | \$0.0064  | \$0.0064                                  | \$0.0088  | \$0.0088                                  |
| Electronic filing   | \$0.0215  | \$0.0215                                  | \$0.0215  | \$0.0215                                  |
| Corporate call management   | \$0.0102  | \$0.0102                                  | \$0.0169  | \$0.0169                                  |
| Information systems   | \$0.0047  | \$0.0047                                  | \$0.0039  | \$0.0039                                  |
| Supplies  | \$0.0000  | \$0.0000                                  | \$0.0110  | \$0.0110                                  |
| <b>Total volume variable cost</b>   | <b>\$1.0670</b>                                   | <b>\$1.2545</b>                           | <b>\$1.3246</b>                                   | <b>\$1.5121</b>                           |
| <b>Weighted Average</b>   | <b>\$1.076</b>                                    |   | <b>\$1.328</b>                                    |   |

6

7

1 IV. ENHANCEMENTS TO CERTIFIED MAIL AND REGISTERED MAIL

2 A. Overview

3

4 In order for users of certified or registered mail to receive delivery  
5 information, a purchase of a return receipt is required. A new product feature is  
6 proposed allowing certified mail and registered mail users to access the delivery  
7 date and time through either the Internet or the CCM system, without the need to  
8 purchase return receipt service (a return receipt is still needed to obtain the  
9 signature). Within the CCM system, information is provided two ways: (1) the  
10 interactive voice response (IVR) system and (2) customer service agents. My  
11 testimony provides the additional unit costs incurred to provide this information.  
12 No other costs are incurred, as the information is captured and stored using the  
13 Electronic Signature Capture system that is already used for certified mail and  
14 registered mail.

15

16 B. Methodology

17

18 Unit costs of providing access to delivery date and time information were  
19 based on Delivery Confirmation call center costs and frequency of access as a  
20 proxy. Unit volume variable costs for Internet access were assumed to be zero,  
21 as they are in Delivery Confirmation. This calculation is presented in USPS-LR-  
22 J-135, Worksheet D-1.



1

2 C. Results

3

4 Table 3 provides a summary of the test year volume variable costs of the  
5 enhancement to certified mail and registered mail.

| <b>Table 3: Test Year Unit Volume Variable Costs for<br/>Accountable Mail and Related Services</b> |                 |
|--|-----------------|
| <b>Service</b>   | <b>Cost</b>     |
| <b>Certified Mail Enhancement</b>  | <b>\$0.0707</b> |
| <b>Registered Mail Enhancement</b>   | <b>\$0.0707</b> |

1 V. RETURN RECEIPT COST UPDATES

2 A. Overview

3

4 Several new options are proposed to be available to return receipt users.  
5 Return receipts after mailing will be available for purchase over the Internet using  
6 a credit card, in addition to over the retail counter. In addition, a new electronic  
7 return receipt is proposed. The traditional return receipts (Green Card) and  
8 return receipts for merchandise will still be available. The new services are  
9 described in more detail below.

10 Customers will have the option to purchase a return receipt after mailing  
11 over the Internet. This product will differ from the existing return receipt after  
12 mailing in two ways: the customer will not have to go into the post office to make  
13 a purchase, and the customer (rather than a postal clerk) will initiate the request  
14 and fill out the necessary information on the Internet. Once the request is made,  
15 the process is the same and the customer is sent the delivery and signature  
16 information via fax or mail as requested.

17 The electronic return receipt (eRR) product is a new return receipt option  
18 purchased at the time of mailing the accountable piece. The customer provides  
19 his or her email address to the Postal Service at the time of purchase. After  
20 delivery of the accountable piece, the customer will automatically be sent the  
21 delivery date and time information, and a digital image of the signature from the  
22 accountable mailpiece via a secure, digitally encrypted email transmission.

1 B. Methodology

2

3 For all return receipts, I rely on the methodology presented by witness  
4 Davis (USPS-T-30) in R2000-1, and update costs with new wage rates and  
5 piggyback factors.

6 For return receipts after mailing, I calculate a single unit cost that takes  
7 into account a percentage of transactions that will bypass the window due to  
8 Internet purchase. In order to estimate the costs of the Internet purchase, I rely  
9 on estimates provided by the Information Systems department to provide  
10 technology support, which are treated as incremental costs, and unit costs  
11 associated with transactional fees as provided by the Treasurer's department.  
12 The details of these calculations are found in USPS-LR-J-135, Worksheet C-4.

13 For the new electronic return receipt, acceptance costs are based upon  
14 the existing return receipt acceptance window transaction time. It is assumed  
15 that the time required to provide an email address is the same as that required to  
16 fill out the Green Card form.

17 The signature for the accountable mailpiece is collected at delivery on  
18 Form 3849, which is then collected, scanned, and stored electronically using the  
19 Electronic Signature Capture system. Thus, the electronic return receipt causes  
20 no additional costs for delivery or scanning activities.

21 Once the signature is electronically available in the system, the electronic  
22 return receipt will be sent via email to the customer. Unit costs for the digital  
23 transmission of the encrypted signature are based on estimates provided by a

1 potential vendor who will provide this service. These calculations are presented  
2 in USPS-LR-J-135, Worksheet C-5.

3

4 C. Results

5

6 Table 4 provides a summary of the test year volume variable costs of the  
7 various return receipt services.

| <b>Table 4: Test Year Unit Volume Variable Costs for<br/>Return Receipts</b> |             |
|--|-------------|
| <b>Service</b>   | <b>Cost</b> |
| <b>Return Receipts</b>   |             |
| Non-Merchandise  | \$1.3609    |
| After Mailing  | \$1.6644    |
| Merchandise  | \$2.2415    |
| Electronic Return Receipt  | \$0.8765    |

8