

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

EXPERIMENTAL PREMIUM
FORWARDING SERVICE

Docket No. MC2005-1

UNITED STATES POSTAL SERVICE NOTICE OF FILING ERRATA TO
DIRECT TESTIMONY OF ABDULKADIR M. ABDIRAHMAN
(USPS-T-3)(ERRATA)
(December 20, 2004)

The United States Postal Service provides notice that it is filing errata to witness Abdirahman's testimony, USPS-T-3. The errata consist of three pages of testimony plus a replacement Appendix, all of which are attached. Electronic versions of all revisions are also being provided.

The first two testimonial changes conform with witness Abdirahman's response to interrogatory OCA/USPS-T3-2, filed December 13, 2004. The other changes update the cost results.

Several changes have been made in the Appendix. The first change is use of the most recent *National Payroll Summary Report, Pay Period FY 21-2004, Ending Date 10-01-2004* as the source for wage rates. Second, wage rates and calculated costs uniformly represent Fiscal Year 2005, inflated where necessary for consistency. Accordingly, the changes consist of: the clerk wage rate, carrier wage rate, cost of postage due collection at a call window, the change of address processing cost, and the carrier preparation cost. Third, the Overhead Cost Factor, the Waiting Time Factor, and the Piggyback Factors are corrected to reflect the factors used in Docket No. R2001-1. Lastly, many of the footnotes now provide greater detail regarding source information.

As a result, the set-up cost changes from \$5.01 to \$5.58, and the per-shipment cost changes from \$2.76 to \$2.63.

Replacement pages, marked with the revision date, are attached.

SUMMARY OF ERRATA TO USPS-T-3, DECEMBER 20, 2004

- 1) On page 2, lines 21 to 22, change the "Thus, the transaction time for processing a Post Office box application serves as an excellent proxy." To "Thus, the transaction time for processing a Post Office box application, including most aspects of collecting payment, serves as an excellent proxy."
- 2) On page 3, lines 5-6. Change "the PFS prepayment cost" to "capturing the additional costs for PFS prepayment."
- 3) On page 3, line 14. Please change the \$5.01 to \$5.58.
- 4) On page 5, line 4. Please change the \$2.76 to \$ 2.63.
- 5) On page 5, line 11. Please change the \$5.01 to \$5.58 and \$2.76 to \$ 2.63.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1 **IV. PFS COSTING METHODOLOGY**

2 I developed cost estimates based upon witness Cobb's product definition.
3 All of the costs for PFS are volume variable. The cost analysis presented in this
4 testimony estimates the average unit cost of the proposed product. Costs are
5 separated into two cost categories: set-up costs and per-shipment costs. The
6 methodology used for each cost category is described in more detail below.

7
8 **A. Set-up Costs**

9 Set-up costs are the one-time costs associated with a single customer's
10 enrollment and registration for PFS. Such costs include the processing of the
11 PFS customer application, the collection of postage and fees, and the
12 recordation of customer information into the PFS Master Log. The PFS costing
13 model assumes that most of the set-up functions will be performed by a clerk,
14 and so clerk costs are used.

15 When a customer completes a PFS application and presents it to her local
16 delivery United States Post Office[®], a clerk would process the application by
17 checking for accuracy and completeness, verifying the identity of the applicant,
18 confirming the start and end dates of PFS, and ensuring that the customer has
19 no active forwarding order in effect. The processing of an application would be
20 similar to the processing of a Post Office box application, given that the same
21 nature and quantity of information is required. Thus, the transaction time for
22 processing a Post Office box application, including most aspects of collecting
23 payment, serves as an excellent proxy.

1 After verifying an application, the clerk would collect all fees plus postage
2 since a customer prepays for the entire PFS service period. The clerk would
3 explain the composition of the required sum and collect it. This process would be
4 similar to the collection of postage due at a call window; therefore, the collection
5 of postage due at a call window serves as a good proxy for capturing the
6 additional costs for PFS prepayment.

7 The final step in the set-up process is the recordation of customer
8 information into the PFS Master Log. The clerk would enter each customer's
9 reshipping information into a Master Log, which would list all of that office's PFS
10 customers. The cost of a clerk processing Change-of-Address cards was used
11 as a proxy for the cost of processing the Master Log, given that the amount of
12 information entered in both processes is similar.

13 The total set-up costs, consisting of the sum of the three proxies identified
14 above, are estimated to be \$5.58 for each PFS customer. Page 2 of the
15 appendix shows this calculation in detail, and also identifies the sources behind
16 each of the proxy cost numbers.

17

18 **B. Per-Shipment Costs**

19 Per-shipment costs are the costs associated with mail separation,
20 repackaging, and dispatch. The PFS costing model conservatively assumes that
21 most of the per-shipment-related activities are performed by the carrier. While a
22 clerk may perform some of the in-office functions associated with the preparation

1 used as a proxy for the cost of completing the PFS label, given that the quantity
2 and nature of information would be comparable.

3 The per-shipment costs, calculated by using the proxies and observations
4 described above, are estimated to be \$2.63, not including the postage associated
5 with Priority Mail pieces. Please see the appendix, page 3.

6

7 **V. Conclusion**

8 I have estimated the costs for providing Premium Forwarding Service. I
9 understand that witness Koroma (USPS-T-4) proposes two fees, one for enrolling
10 a customer and the other for each PFS shipment. My cost estimates indicate
11 that the former costs \$5.58, and the latter \$2.63. Cost elements and their
12 sources are documented in the appendix to this testimony.

Summary of PFS Estimated Costs

Premium Forwarding Cost Estimates		
Set-Up Cost ¹ :	\$	5.584
Per-Shipment Cost ² :	\$	2.626

¹ Premium Forwarding Service Cost Analysis, page 2.

Premium Forwarding Service Cost Analysis Page 2

Revised 12/20/04

One Time Set-Up Cost

Calculation of Unit Cost of Setting up Premium Forwarding Service

\$ 3.912	Labor Cost: Window Acceptance of Premium Forwarding Service Applications
0.020	Labor Cost: Clerk Collecting Fees and Postage
<u>1.652</u>	Labor Cost: Back Office Set-Up
\$ 5.584	Total Unit Cost Set-Up Cost

Labor Cost: Window Acceptance of Customer Request for Premium Forwarding Service Application

0.052	Labor Time (hours) ¹
\$ 33.741	Wage Rate for Window Service Clerk ²
1.073	Overheard Cost Factor ³
1.410	Waiting Time Factor ⁴
<u>1.465</u>	Piggyback Factor for Window Service ⁵
\$ 3.912	

Labor Cost: Clerk Collecting Fees and Postage

\$ 0.020	Collection of Postage Due at Call Window Was Used as Proxy ⁶
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Labor Cost: Back Office Set-Up

\$ 1.652	PFS Back Office Set-Up ⁷ (cost of processing Change-of-Address card used as proxy)
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Notes:

- ¹ See 1997 Window Transaction Time Study, USPS LR-H-167, p. 160 (=188.32 sec. / 60 / 60) Box Rental
- ² Wage Rate Input Sheet (Page 4 of this Appendix)
- ³ Docket No. R2001-1, USPS-T-11, WP B3 (USPS-LR-57, workpapb.zip,Cs03.xls)W/3.2.1. Calculated as :
1+((line 55, col. 1) / (line72, col. 1-line 55, col 1)). Alternatively, 1+Cell C64/(Cell C81-Cell C64)
- ⁴ Docket No R2001-1, USPS-T-11, WP B3 (USPS-LR-57, workpapb.zip,Cs03.xls)W/3.2.1. Calculated as:
1+((line 67, col.9) / (line 50, col. 19-line 67, col 9)). Alternatively, 1+Cell K76/(Cell U59-Cell K76)
- ⁵ Docket No. R2001-1, USPS-T-15, Attachment 10
- ⁶ LR-J-69 Table 5.2.5.4 Cell N8, adjusted for inflation to FY 2005 on page 4 of this appendix.
- ⁷ LR-J-69 Table 5.2.1.1 Cell N8, adjusted for inflation to FY 2005 on page 4 of this appendix.
Clerk is allowed two minutes per piece.

Premium Forwarding Service Cost Analysis Page 3

Revised 12/20/04

Per Shipment Cost

\$ 0.204	Labor Cost: Mail Separation
1.546	Labor Cost: Repackaging
0.826	Labor Cost: Carrier Filling out the Label
<u>0.050</u>	Label Cost
\$ 2.626	Total Per Shipment Cost

Labor Cost: Mail Separation

\$ 0.034	Cost of Carrier Preparation of Forwarded and Hold Mail Used as Proxy ¹
<u>X 6</u>	Days per Week that Separations Occur
\$ 0.204	Total

Labor Cost: Repackaging

0.033	Labor Time (hours) ²
\$ 34.200	Wage Rate for Carrier ³
<u>1.356</u>	Piggyback Factor for All Other Special Services ⁴
\$ 1.546	

\$ 0.826 Labor Cost: Carrier Filling out the Label ⁵

Material Costs

\$ 0.05 Label Cost ⁶

Notes:

¹ LR-J-69 Table 5.1.1 Cell J7, adjusted for inflation to FY 2005 on page 4 of this appendix.

² Special Studies Field Observation

³ Wage Rate Sheet (page 4 of this Appendix)

⁴ Docket No. R2001-1, USPS-T-15, Attachment 10

⁵ LR-J-69 Table 5.2.1.1 Cell N8, adjusted for inflation to FY 2005 on page 4 of this appendix.

Half of the COA processing cost $\$1.652/2 = \0.826 .

⁶ USPS Packaging (Headquarters)

Premium Forwarding Service Cost Analysis Page 4
Wage Rate and Cost Input Sheet

Revised 12/20/04

Clerk Wage Rate ¹
 Carrier Wage Rate ²

		USPS Escalation	
	Actual 04	Inflated 05	Factor*
Clerk Wage Rate	\$ 32.443	\$ 33.741	4.0%
Carrier Wage Rate	\$ 32.884	\$ 34.200	4.0%

Source: ¹ National Payroll Hour Summary Report, Pay Period-FY 21-2004 at page 27
 Source: ² National Payroll Hour Summary Report, Pay Period-FY 21-2004 at page 40

Postage Due Collection At Call Window Cost ¹
 Processing of COA Cost ²
 Carrier Preparation Cost ³

		USPS Escalation		
	TY 03	Inflated 04	Inflated 05	Factor*
Postage Due Collection At Call Window Cost	\$ 0.018	\$ 0.019	\$ 0.020	4.0%
Processing of COA Cost	\$ 1.528	\$ 1.589	\$ 1.652	4.0%
Carrier Preparation Cost	\$ 0.031	\$ 0.033	\$ 0.034	4.0%

¹ LR-J-69 Table 5.2.5.4 Cell N8, inflated to 2005 costs using the escalation factor.
² LR-J-69 Table 5.2.1.1 Cell N8, inflated to 2005 costs using the escalation factor.
³ LR-J-69 Table 5.1.1 Cell J7, inflated to 2005 costs using the escalation factor.

* USPS Escalation Factor = 4%, in accord with Docket No. MC2004-4

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.

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