

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

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

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**Docket No. R2005-1**

**DIRECT TESTIMONY  
OF  
JATONA S. HATCHER  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE**

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1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 The purpose of this testimony is to present estimated costs for the following:  
3 Qualified Business Reply Mail (QBRM) Discount, Business Reply Mail, and On-Call and  
4 Scheduled Pickup Service. The QBRM discount cost study supports the QBRM  
5 postage discount. This discount applies to certain Business Reply Mail (BRM) First-  
6 Class Mail letters and cards that are preapproved and prebarcoded.

7 The BRM cost studies support a variety of services and fees. These fees include  
8 Annual Permit fee, Annual Accounting fee, QBRM Quarterly fee, Non-Letter Size BRM  
9 Monthly fee, High-Volume QBRM Per-Piece fee, Basic QBRM Per-Piece fee, High-  
10 Volume BRM Per-Piece fee, Basic BRM Per-Piece fee, and Non-Letter Size BRM Per-  
11 Piece fee.

12

13 **II. ASSOCIATED LIBRARY REFERENCE**

14 I am sponsoring the following Category 2 library reference in association with my  
15 testimony: USPS-LR-K-69 (*Supporting Materials for Costs of Business Reply Mail,*  
16 *Miscellaneous Fees, and Pickup Service*). The library reference contains printed and  
17 electronic spreadsheets used to develop test year cost estimates of Annual Permit and  
18 Annual Accounting fees, Business Reply Mail fees and per-piece costs, QBRM Cost  
19 Avoidance, and On-Call and Scheduled Pickup Costs. The Business Reply Mail and  
20 QBRM Cost Avoidance studies update previous studies sponsored by witness Miller  
21 (USPS-T-22/R2001-1, USPS-J-60). The On-Call and Scheduled Pickup Cost study  
22 updates a previous study sponsored by witness Abdirahman (USPS-T-42/R2001-1,  
23 USPS-LR-J-69, SECTION D.).

24 **III. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

25 **A. ROADMAP**

26 I develop my cost estimates using inputs I obtain from the following witnesses in  
27 this case: Witness Tayman (USPS-T-6) provides wage rates (USPS-LR-K-50); witness  
28 Van-Ty-Smith (USPS-T-11) provides volume variability factors, premium pay factors,

1 and deaveraged wage rates (USPS-LR-K-55); witness Smith (USPS-T-13) provides  
 2 piggyback factors and Remote Computer Read (RCR) costs (USPS-LR-K-52); witness  
 3 Abdirahman (USPS-T-21) provides the letter-related operations-specific piggyback and  
 4 volume variabilities factors and Bulk Metered Mail letter CRA adjustment factor (USPS-  
 5 LR-K-48) and the mail processing accept rates (USPS-LR-K-68); and witness Bozzo  
 6 (USPS-T-12) provides MODS productivities (USPS-LR-K-56) .

7 My test year cost estimates are provided to witnesses Robinson (USPS-T-27)  
 8 and Taufique (USPS-T-28).

9

## 10 **B. DATA SOURCES**

11 Numerous data sources have been used in my cost models to calculate the cost  
 12 estimates presented in this testimony. I rely upon the following data sources from  
 13 Docket Nos. R80-1, R90-1, R97-1, MC99-2, R2000-1, and R2001-1:

14 <u>Docket No.</u>	<u>Data Description</u>	<u>Data Source</u>
15 R80-1	Clerk Activity for Permit issuance	LR-C-9
16 R90-1	Clerk Activity	USPS-T-23
17 R97-1	BRM Practices Survey	USPS-T-27
18	Accept/Upgrade Rates	USPS LR-H-130
19	Pickup Fee Cost Study	USPS LR-H-157
20	Pickup Fee Cost Study	USPS LR-H-158
21	Pickup Fee Cost Study	USPS LR-H-159
22	BRM Practices Survey/Table 13	USPS LR-H-179
23	Cost Revenue and Analysis (CRA)	Cost Segment 7
24	Cost Revenue and Analysis (CRA)	Cost Segment 9
25 MC99-2	BRM Survey	USPS-T-3
26 R2000-1	BRM Rating and Billing Study	USPS-T-29, Appendix 1
27	Derivation of High-Volume and	
28	Low-Volume QBRM Piece Costs	Exhibit KE-1B
29		
30 R2001-1	Riffle Letter Productivity	USPS LR-J-56
31	High-Volume QBRM Survey/	USPS LR-J-60
32	Weight Averaging/Counting Machine	
33		

1 In addition, I obtain inputs from the following Docket No. R2005-1 library  
2 references.

3	R2005-1	Wage Rates	USPS-LR-K-50
4		Piggyback Factors	USPS-LR-K-52
5		Remote Computer Read (RCR) Costs	USPS-LR-K-52
6		Test Year Wage Rates (disaggregated)	USPS-LR-K-55
7		Premium Pay Factors	USPS-LR-K-55
8		MODS Productivities	USPS-LR-K-56
9		MPBCS/DBCS Accept Rate	USPS-LR-K-48
10		RCR Factors	GFY 2004 RBCS Data
11		CRA Adjustment Factor	USPS-LR-K-48
12		Letter-related Piggyback Factors	USPS-LR-K-48
13		Volume Variability Factors	USPS-T-11, Table 1
14			

#### 15 **IV. QUALIFIED BUSINESS REPLY MAIL DISCOUNT**

##### 16 **A. SCOPE OF ANALYSIS**

17  
18 This section develops the estimate of test year mail processing costs that are  
19 avoided by a prebarcoded Business Reply Mail piece (letter or card) compared to a  
20 handwritten reply mail piece.

##### 21 **B. BACKGROUND**

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23 The QBRM discount was established in Docket No. R97-1 based on an analysis  
24 showing cost savings associated with a Postal Service-approved, prebarcoded reply  
25 mail piece. This cost savings, or cost avoidance, is calculated as the difference  
26 between the mail processing costs of a handwritten First-Class Mail reply mail piece  
27 and those of a preapproved, prebarcoded First-Class Mail single-piece reply mail piece.  
28 The costs avoided were defined as the costs incurred by the Postal Service applying a  
29 barcode to the handwritten reply mail piece.

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1           **C.     COST METHODOLOGY**

2           In Docket No. R2001-1, witness Miller was responsible for updating the QBRM  
3 discount cost study.<sup>1</sup> Witness Miller refined and narrowed the scope of the model in  
4 order to only incorporate mail processing costs through the incoming primary operation.  
5 The methodology for the cost study I am presenting in this case is unchanged from the  
6 model presented by witness Miller. The cost avoidance underlying the discount is still  
7 defined as the difference between mail processing costs of a prebarcoded First-Class  
8 Mail reply mailpiece compared to those of a handwritten First-Class Mail reply mail  
9 piece. The model has been updated to include test year 2006 equipment changes, test  
10 year finalization factors, piggyback factors, volume variability factors, and wage rates.

11           **D.     QBRM COST AVOIDANCE**

12           The test year cost avoidance for a QBRM mail piece is 2.193 cents. This is  
13 calculated by subtracting the total costs of a prebarcoded reply mail piece from the total  
14 costs of a handwritten reply mail piece. The primary driver of this cost difference is the  
15 cost of postal application of a barcode to a handwritten mail piece.

16           **V.     BUSINESS REPLY MAIL AND MISCELLENEOUS FEES**

17           This section of my testimony covers the cost studies that support several special  
18 service fees. Business Reply Mail (BRM) is a special service in which permitted mailers  
19 offer their customers prepaid postage on letters, cards, and parcels preaddressed to the  
20 mailer. Customers use these mail pieces to reply to the mailer with subscription  
21 renewals, bill payments, survey responses, fundraising donations, and other  
22 remittances. The mailer has the advantage of not having to pay postage on the mail  
23 piece until and unless it is actually returned by the customer.

24           Mailers of BRM mail pieces are required to pay the applicable First-Class Mail or  
25 Priority Mail postage, plus the applicable per-piece fee, for all returned BRM. In  
26 addition, all mailers of BRM mail pieces must pay an Annual Permit fee. Mailers may  
27 choose to have the postage and fees paid for out of an Advance Deposit Account or a

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<sup>1</sup> Docket No. R2001-1, USPS-T-22, at 26-27.

1 Postage Due Account. Mailers who choose to pay out of an Advance Deposit Account  
2 must pay an Annual Accounting fee. The size of the respective per-piece fees depend  
3 upon whether the mail piece is automation-compatible and whether associated fees are  
4 paid on a monthly, quarterly, or annual basis.

5 This section provides the cost estimates for a variety of BRM fees and services.  
6 The fees are: the Annual Permit fee, Annual Accounting fee, QBRM Quarterly fee, Non-  
7 Letter Size BRM Monthly fee, High-Volume QBRM Per-Piece fee, Basic QBRM Per-  
8 Piece fee, High-Volume BRM Per-Piece fee, Basic BRM Per-Piece fee, and Non-Letter  
9 Size BRM Per-Piece fee. These costs are all associated with the counting, rating,  
10 billing, and sampling functions for the BRM service, above and beyond the costs  
11 attributed to First-Class Mail. Several of these fees (e.g. the Annual Permit fee and  
12 the Annual Accounting fee) apply to services other than BRM.

13 The respective methodologies used to calculate these fees are unchanged from  
14 Docket No. R2001-1. I have updated the models by using test year 2006 wage rates,  
15 volume variable productivities, and piggyback factors.

16

#### 17 **A. ANNUAL PERMIT FEE**

18 Mailers have the option of using a permit imprint (e.g. BRM permit) to pay for  
19 postage, rather than using either stamps or meter strips. Permits must be obtained at  
20 the post office point-of-entry. The mailer submits a Form 3615, *Mailing Permit*  
21 *Application and Customer Profile*, and pays the Permit fee. The mailer must thereafter  
22 pay the Permit fee annually. If a mailer does not mail permit imprint mailings during a  
23 24-month period, does not pay the annual fee, or does not comply with any standard  
24 applicable to permit imprints, the permit may be revoked.

25 The cost methodology used to calculate this permit fee remains unchanged from  
26 Docket No. R2001-1.<sup>2</sup> The cost study incorporates the costs of the following elements:  
27 permit issuance, literature, and permit revocation. The test year cost estimate for the  
28 Annual Permit fee is \$109.08.

29

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<sup>2</sup> Docket No. R2001-1, USPS-T-22, at 36.

## 1           **B.     ANNUAL ACCOUNTING FEE**

2           In order to qualify for some special service fee categories, mailers must establish  
3 an Advance Deposit Account. For example, use of an Advance Deposit Account  
4 qualifies returned BRM mail pieces for reduced per-piece fees. An Annual Accounting  
5 fee must be paid by mailers who establish an Advance Deposit Account. Clerks deduct  
6 the appropriate charges from these accounts after performing all the counting, rating  
7 and billing tasks. If a permit mailer account is deficient of funds, a postage due clerk  
8 must contact the mailer. The Annual Accounting fee covers such costs associated with  
9 the maintenance and oversight of the accounts, including those used for Bulk Parcel  
10 Return Service (BPRS), Merchandise Return Service, Shipper Paid Forwarding, and  
11 BRM.

12           The cost methodology has remained unchanged from Docket No. R2001-1.<sup>3</sup> The  
13 test year cost estimate for the Annual Accounting fee is \$347.92.

## 14           **C.     QUALIFIED BUSINESS REPLY MAIL QUARTERLY FEE**

15           A new category for high-volume QBRM mailers was established in Docket No.  
16 R2000-1 after it was determined that the rating and billing functions for this type of mail  
17 were fixed in nature. The quarterly fee was established to cover the rating and billing  
18 costs of this mail type. This quarterly fee can be paid for any consecutive three  
19 calendar month period, which in turn authorizes the mailer to pay the High-Volume  
20 QBRM Per-Piece fee for returned mail pieces.

21           The cost methodology used to calculate this fee remains unchanged since  
22 Docket No. R2001-1.<sup>4</sup> The test year cost estimate for the QBRM Quarterly fee is  
23 \$814.15.

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25  
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<sup>3</sup> Id.

<sup>4</sup> Id. at 37.

1           **D.     NON-LETTER SIZE BUSINESS REPLY MAIL MONTHLY FEE**

2           The Non-Letter Size BRM category was established in Docket No. MC99-2. This  
3 category is primarily used by film processors and printing companies which have film  
4 and ink cartridges returned via the mail. The process used for sampling and billing  
5 these pieces is called bulk weight averaging, which is based upon principles of  
6 mathematical statistics. These pieces are weighed, in bulk, at participating facilities,  
7 where computers with special software calculate average postage due per pound and  
8 average piece count per pound based on statistically valid samples drawn from the total  
9 volume. The sampling is done monthly in order to ensure that the conversion factors  
10 are current. The total weight is multiplied by these conversion factors to obtain the  
11 estimated volume received and the appropriate postage and fee amounts. The monthly  
12 fee was established in order to cover the related costs of billing and sampling.

13           The cost methodology used to calculate costs for this fee remains the same as  
14 the one used in Docket No. R2001-1.<sup>5</sup> The test year cost estimate for the Non-Letter  
15 Size BRM Monthly fee is \$613.57.

16  
17           **E.     HIGH-VOLUME QUALIFIED BUSINESS REPLY MAIL PER-PIECE FEE**

18           As discussed earlier, high-volume QBRM mailers who pay the QBRM Quarterly  
19 fee are entitled to a lower per-piece fee. The quarterly fee covers the fixed rating and  
20 billing costs for this category. The per-piece fee covers the costs associated with  
21 counting the mail pieces above and beyond the activities covered by the First-Class  
22 Mail postage.

23           The cost methodology used to calculate costs for this fee remains the same as  
24 the one used in Docket No. R2001-1.<sup>6</sup> The test year cost estimate for the High-Volume  
25 QBRM Per-Piece fee is 0.367 cents.

26  
27  
28  

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<sup>5</sup> Id.

<sup>6</sup> Id. at 37-39.

1           **F.     BASIC QUALIFIED BUSINESS REPLY MAIL PER-PIECE FEE**

2           Mailers who do not have sufficient BRM volume to justify paying a quarterly fee  
3 have the option of using the Basic QBRM category. Basic QBRM mail pieces have to  
4 meet the same requirements as High Volume QBRM mail, and mailers of Basic QBRM  
5 pieces must have all fees and charges deducted from an Advance Deposit account.  
6 This Basic QBRM Per-Piece fee covers the counting, rating, and billing costs above and  
7 beyond the activities covered by the First-Class Mail postage.

8           The cost methodology used to calculate costs for this fee remains the same as  
9 the one used in Docket No. R2001-1.<sup>7</sup> The test year cost estimate for the Basic QBRM  
10 Per-Piece fee is 3.682 cents.

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12           **G.     HIGH-VOLUME BUSINESS REPLY MAIL PER-PIECE FEE**

13           Mailers who choose not to meet the Postal Service automation requirements for  
14 QBRM mailings have the option of using the High-Volume BRM fee category. These  
15 mailers are still required to have all postage and fees deducted from an Advance  
16 Deposit Account. The High-Volume BRM Per-Piece fee covers the counting, rating, and  
17 billing costs above and beyond the activities associated with the First-Class Mail  
18 postage.

19           The cost methodology used to calculate costs for this fee remains the same as  
20 the one used in Docket No. R2001-1.<sup>8</sup> The test year cost estimate for the High-Volume  
21 BRM Per-Piece fee is 4.938 cents.

22  
23           **H.     BASIC BUSINESS REPLY MAIL PER-PIECE FEE**

24           Mailers who do not have enough volume to justify paying an Annual Accounting  
25 fee can use the Basic BRM category. This fee has the highest costs associated with its  
26 usage due, in part, to its mostly manual counting, rating, billing, and collection methods.  
27 Mailers who use this category have the option of paying their postage and fees upon

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<sup>7</sup> Id. at 40.

<sup>8</sup> Id.

1 pickup or by using a Postage Due account. Postage Due accounts require  
2 maintenance and oversight similar to an Advance Deposit account. The oversight and  
3 maintenance activities also significantly increase the costs associated with this fee  
4 category.

5 The cost methodology used to calculate costs for this fee remains the same as  
6 the one used in Docket No. R2001-1.<sup>9</sup> The test year cost estimate for the Basic QBRM  
7 Per-Piece fee is 52.215 cents.

8

9 **I. NON-LETTER SIZE BUSINESS REPLY MAIL PER-PIECE FEE**

10 As discussed in section V, part D, the Non-Letter Size BRM category is primarily  
11 used by printer companies and film processors for the return of their ink cartridges and  
12 film canisters. The per-piece fee for Non-Letter Size BRM covers the costs associated  
13 with counting these mail pieces. Bulk weight averaging is used to count the incoming  
14 non-letter size BRM mail pieces in the manner described in part D.

15 The cost methodology used to calculate costs for this fee remains the same as  
16 the one used in Docket No. R2001-1.<sup>10</sup> The test year cost estimate for the Non-Letter  
17 Size BRM Per-Piece fee is .549 cents.

18

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<sup>9</sup> Id. at 40-41.

<sup>10</sup> Id. at 41.

1 **VI. ON-CALL AND SCHEDULED PICKUP SERVICE**

2 On-Call and Scheduled Pickup Service is available for Express Mail, Priority Mail,  
3 and single-piece rate Parcel Post for a charge. There are no limitations on the number  
4 of pieces that may be picked up. A customer must sign Form 5541, *Pickup Service*  
5 *Statement*, when paying the charge.

6 The costs I am presenting are those associated with the On-Call and Scheduled  
7 Pickup Service. The cost methodology used to calculate costs for these services  
8 remain the same as the one used in Docket No. R2001-1.<sup>11</sup> The estimated On-Call and  
9 Scheduled Pickup costs for the test year are \$11.20 and \$10.49, respectively.

10

11 **VII. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY**

12

13 The material changes between my cost model, USPS-LR-K-69, *Supporting*  
14 *Materials for Costs of Business Reply Mail, Miscellaneous Fees, and Pickup Service*  
15 and USPS-LR-K-104, *PRC Version of Supporting Materials for Costs of Business*  
16 *Reply Mail, Miscellaneous Fees, and Pickup Service*, are volume variabilities,  
17 piggybacks factors and premium pay factors.

18 The following chart compares the test year cost estimates produced in LR-K-69  
19 and the ones produced in the PRC version LR-K-104.

20

21

**TEST YEAR COST ESTIMATES**

22

23 <b>Fee</b>	<b>USPS-LR-K-69</b>	<b>USPS-LR-K-104</b>
24 QBRM Cost Avoidance	\$000.02193	\$000.02198
25 Annual Permit Fee	\$109.08	\$119.94
26 Annual Accounting Fee	\$347.92	\$382.82
27 QBRM Quarterly Fee	\$814.15	\$820.21
28 Non-Letter Size BRM Monthly Fee	\$613.57	\$618.14
29 Non-Letter Size BRM Per-Piece Fee	\$000.00549	\$000.00653
30 High Volume QBRM Per-Piece Fee	\$000.00367	\$000.00443
31 Basic QBRM Per-Piece Fee	\$000.03682	\$000.04383
32 High Volume BRM Per-Piece Fee	\$000.04938	\$000.05874
33 Basic BRM Per-Piece Fee	\$000.52215	\$000.58004
34 On-Call Pickup Service	\$11.203	\$11.485
35 Scheduled Pickup Service	\$10.486	\$10.749

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<sup>11</sup> Docket No. R2001-1, USPS-T-42.

1           To the extent that, in response to Commission Rule 53, I discuss and compare  
2 PRC versions of costing materials in this testimony, I do not sponsor those materials, or  
3 in any way endorse the methodologies used to prepare them. In its Order No. 1380  
4 adopting the roadmap rule, the Commission included the following statements regarding  
5 the role played by Postal Service witnesses under these circumstances:

6           The comparison required by this exercise cannot be equated with  
7 sponsoring the preexisting methodology. It merely identifies and gives  
8 context to the proposed change, serving as a benchmark so that the  
9 impact can be assessed. ... Witnesses submitting testimony under Rule  
10 53(c) sponsor the proposed methodological changes, not the preexisting  
11 methodology. That they may be compelled to reference the preexisting  
12 methodology does not mean that they are sponsoring it.

13  
14 Order No. 1380 (August 7, 2003) at 7. Therefore, although I may be compelled to refer  
15 to the PRC methodologies and versions corresponding to the Postal Service proposals  
16 which are the subject of my testimony, my testimony does not sponsor those PRC  
17 materials.

18