

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

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

Docket No. R2005-1

DIRECT TESTIMONY
OF
KARL D. WESNER
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

TABLE OF CONTENTS

- AUTOBIOGRAPHICAL SKETCH..... ii
- I. PURPOSE AND SCOPE OF TESTIMONY..... 1
- II. GUIDE TO SUPPORTING DOCUMENTATION 1
- III. DELIVERY CONFIRMATION.....3
 - A. Overview3
 - B. Methodology3
 - C. Results5
- IV. SIGNATURE CONFIRMATION7
 - A. Overview7
 - B. Methodology7
 - C. Results 10
- V. RETURN RECEIPT COST UPDATES 10
 - A. Overview 10
 - B. Methodology 11
 - C. Results 12
- VI. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY..... 13

Library References:

USPS-LR-K-60

Direct Testimony
Of
Karl D. Wesner

AUTOBIOGRAPHICAL SKETCH

1 My name is Karl D. Wesner. I am an Economist in the Special Studies
2 group within the Finance Department at United States Postal Service
3 Headquarters. I began working for the Postal Service in January, 2005. My
4 primary responsibilities include developing costs for Delivery Confirmation,
5 Signature Confirmation, and Return Receipt services, in addition to conducting
6 special studies as requested and/or needed.

7 Prior to working with the Postal Service, I worked as a Revenue Analyst in
8 the accounting department of FedEx Ground in Pittsburgh, Pennsylvania, where I
9 was responsible for summarizing and reporting package volumes and revenues
10 to Senior Management on a weekly basis. I also worked in Arlington, Virginia for
11 US Airways as a Pricing Analyst and a Finance Analyst, and as a Research
12 Analyst for Cadmus Group, located in Alexandria, Virginia. My responsibilities
13 included assisting in the preparation of technical documents for the EPA, and of
14 government contract proposals, along with database management.

15 I received a Bachelor of Science degree in Economics, Math, and
16 Business from the University of Pittsburgh, and have taken some graduate level
17 economics courses.

1 In order to familiarize myself with Postal operations, I have toured a Post
2 Office in Falls Church, VA, and a Processing and Distribution Center in
3 Washington, DC.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of this testimony is to present estimated test year volume
3 variable costs for the Delivery Confirmation, Signature Confirmation, and Return
4 Receipt services.

5

6 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

7

8 I develop my cost estimates using inputs from the following witnesses in
9 this case: Witness Tayman (USPS-T-6) provides productive hourly rates for city
10 and rural carriers (USPS-LR-K-50); witness Bernstein (USPS-T-8) provides test
11 year before rates volumes (USPS-LR-K-66); witness Meehan (USPS-T-9)
12 provides base year revenue (USPS-LR-K-4), base year costs, window service
13 costs, waiting time costs, and distribution key inputs (USPS-LR-K-5); witness
14 Waterbury (USPS-T-10) provides rollforward costs (USPS-LR-K-7); witness Van-
15 Ty-Smith (USPS-T-11) provides MODS based costs, hourly wage rates for
16 window and box section clerks, and window costs for Delivery Confirmation
17 (USPS-LR-K-55); witness Smith (USPS-T-13) provides piggyback factors (USPS-
18 LR-K-52); and billing determinants were obtained from USPS-LR-K-77.

19 My cost estimates are provided to witness Moser (USPS-T-23) for use in
20 developing the final adjustments, and also to witness Robinson (USPS-T-27) and
21 witness Taufique (USPS-T-28).

22 Section 2 of my testimony provides updated Test Year costs for both the
23 manual and electronic options of Delivery Confirmation service for Priority Mail,

1 Package Services, and First-Class Mail (Letters and Sealed Parcels) parcels,
2 and the electronic option only for Parcel Select and Standard Mail. These
3 estimates rely largely on the methodologies of witness Nieto (USPS-T-26) in
4 Docket No. R2001-1.

5 Section 3 of my testimony provides estimated Test Year costs for
6 Signature Confirmation service. Unit volume variable costs are estimated for
7 Priority Mail, and parcels in First-Class Mail (Letters and Sealed Parcels)
8 Standard Mail, Package Services and Parcel Select. These estimates rely largely
9 on the methodologies of witness Nieto (USPS-T-26) in Docket No. R2001-1.

10 Section 4 contains updated Test Year costs for return receipts, including
11 return receipts for merchandise, return receipts after mailing, and electronic
12 return receipts.

13 Section 5 describes differences between the Postal Service version of
14 costs (LR-K-60) and the PRC version (LR-K-105), including a summary table of
15 final results.

16 In addition to this testimony, Library Reference K-60 presents my detailed
17 cost analyses and supporting spreadsheets. I do not have any other
18 workpapers.

1 III. DELIVERY CONFIRMATION

2 A. Overview

3 Delivery Confirmation service provides the mailer with information about
4 the date and time a mailpiece was delivered or delivery was attempted. Delivery
5 Confirmation is offered at the time of mailing in two forms: the electronic option
6 and the manual (or retail) option. In the electronic option, the mailer creates and
7 applies a Delivery Confirmation barcode to the mailpiece, and receives
8 information about Delivery Confirmation items electronically. Pieces mailed
9 under the electronic option must be identified in an electronic manifest provided
10 to the Postal Service. In the manual option, customers purchase Delivery
11 Confirmation through the retail window, and obtain delivery information by
12 telephone or computer. Delivery Confirmation service is available for Priority
13 Mail, and for parcels sent using First-Class Mail, Package Services, and the
14 electronic option only for Standard Mail and Parcel Select.

15

16 B. Methodology

17

18 I made several changes to witness Nieto's analysis in Docket No. R2001-1
19 (USPS-T-26). My testimony now includes costing for Delivery Confirmation in
20 the base year, 2005, and test year, since witness Moser required these
21 calculations in order to develop final adjustments for Special Services.

22

23 I obtained improved estimates of the unit volume variable costs for
Delivery Confirmation manual acceptance by using base year unit window costs

1 multiplied by a piggyback factor. New analysis also improves the accuracy of the
2 unit volume variable costs of rural carrier scans for delivery and attempted
3 delivery, by using the time permitted under the labor agreement of 20 seconds
4 per scan for Delivery Confirmation, rather than a calculated scan time.

5 Additionally, the MODS 44 cost pool, which was used by witness Nieto in Docket
6 No. R2001-1 (USPS-T-26) to calculate the overhead time factor, has been
7 replaced with the manual letter cost pool at Post Offices, stations and branches
8 (NMOD MANL), because the MODS 44 cost pool has been eliminated in the
9 base year CRA.

10 My testimony also reflects the availability of more current information.
11 Wage rates, piggyback factors, and costs for corporate call management,
12 postmaster, information systems, and supplies have all been updated. Updated
13 operational information has also been incorporated. Scanning times at delivery
14 were determined using witness Davis' application of Methods Time Measurement
15 (MTM) time standards in Docket No. R2000-1, combined with the average time
16 required per scan of 2.46 seconds developed by witness Treworgy (Docket No.
17 R97-1, USPS-T-22, Appendix A).

18 The MTM analysis was applied to each of three categories of personnel
19 (city carriers, box section clerks, and window clerks) who deliver Delivery
20 Confirmation mail pieces. Library Reference I-108/Docket No. R2000-1, at 1-9,
21 presents the applicable MTM standards for each of these three categories. As
22 mentioned above, for delivery by rural carriers, the time permitted under the labor
23 agreement has been used.

1 Test Year window acceptance costs for manual Delivery Confirmation
2 service have been estimated in this testimony by calculating base year unit costs,
3 multiplying by the ratio of test year wage rate to base year wage rate, and then
4 multiplying by a piggyback factor.

5 Manual Delivery Confirmation customers can receive Delivery
6 Confirmation information through either the Internet or the corporate call
7 management (CCM) system. Within the CCM system, information is provided in
8 two ways: (1) the interactive voice response (IVR) system and (2) customer
9 service agents. Call center data are provided by the Expedited/Package
10 Services and Product Information Requirements departments.

11

12 C. Results

13 Table 1 presents the total test year volume variable Delivery Confirmation
14 costs for Priority Mail electronic service, Priority Mail manual service, Package
15 Services electronic service, Package Services manual service, Parcel Select
16 electronic service, parcels in the Letters and Sealed Parcels subclass electronic
17 service, parcels in the Letters and Sealed Parcels subclass manual service, and
18 Standard Mail electronic service. This testimony also presents the Priority Mail
19 and Parcel Select Delivery Confirmation costs net of the costs for Priority Mail
20 and Parcel Select electronic service, since those costs are included in Priority
21 Mail and Parcel Select costs, and paid for by Priority Mail and Parcel Select
22 postage, rather than by the Delivery Confirmation service fees.

Table 1: Test Year Delivery Confirmation Unit Volume Variable Costs

<u>Cost Category</u>	<u>Priority Mail Electronic</u>	<u>Priority Mail Manual</u>	<u>Letters/Sealed Parcels Electronic</u>	<u>Letters/Sealed Parcels Manual</u>
Acceptance	\$0.0000	\$0.3159	\$0.0000	\$0.3159
Delivery	\$0.1083	\$0.1083	\$0.1083	\$0.1083
Postmasters	\$0.0000	\$0.0027	\$0.0008	\$0.0033
Corporate call management	\$0.0000	\$0.0899	\$0.0000	\$0.0899
Information systems	\$0.0032	\$0.0024	\$0.0032	\$0.0024
Supplies	\$0.0000	\$0.0042	\$0.0000	\$0.0042
Total volume variable cost	\$0.1115	\$0.5234	\$0.1123	\$0.5240
Less: Cost allocated to base product	\$0.1115	\$0.1115	\$0.0000	\$0.0000
Net volume variable cost	\$0.0000	\$0.4118	\$0.1123	\$0.5240

Table 1: Test Year Delivery Confirmation Unit Volume Variable Costs

<u>Cost Category</u>	<u>Standard Mail Electronic</u>	<u>Package Services Electronic</u>	<u>Package Services Manual</u>	<u>Parcel Select Electronic</u>
Acceptance	\$0.0000	\$0.0000	\$0.3159	\$0.0000
Delivery	\$0.1083	\$0.1083	\$0.1083	\$0.1083
Postmasters	\$0.0000	\$0.0008	\$0.0033	\$0.0008
Corporate call management	\$0.0000	\$0.0000	\$0.0899	\$0.0000
Information systems	\$0.0032	\$0.0032	\$0.0024	\$0.0032
Supplies	\$0.0000	\$0.0000	\$0.0042	\$0.0000
Total volume variable cost	\$0.1115	\$0.1123	\$0.5240	\$0.1123
Less: Cost allocated to base product	\$0.0000	\$0.0000	\$0.0000	\$0.1123
Net volume variable cost	\$0.1115	\$0.1123	\$0.5240	\$0.0000

1 IV. SIGNATURE CONFIRMATION

2

3 A. Overview

4

5 Signature Confirmation service provides the mailer with access to Delivery
6 Confirmation information, and a copy of the recipient's signature upon request.

7 Like Delivery Confirmation, Signature Confirmation is available only at the time of
8 mailing, in one of two forms: the electronic option and the manual (or retail)

9 option. In the electronic option, the mailer must create and apply a Signature

10 Confirmation barcode to the mailpiece, and the pieces must be identified on an

11 electronic manifest provided to the Postal Service. The delivery information is

12 available by computer only, for the electronic option. In the manual option,

13 customers purchase Signature Confirmation service at the retail window, and the

14 Delivery Confirmation information is available by telephone or computer. Under

15 either option, customers may request the signature information via the Internet or

16 the call center. Eligible matter for Signature Confirmation includes Priority Mail,

17 and parcels sent in the Letters and Sealed Parcels subclass of First-Class Mail,

18 or Package Services.

19

20 B. Methodology

21

22 My testimony bases Signature Confirmation costs on Delivery

23 Confirmation costs except when there are operational differences between the

24 two services. Specifically, Signature Confirmation operations during delivery and

25 provision of information to customers differ from those of Delivery Confirmation.

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

8 The need to obtain the recipient's signature causes the carrier to go to the
9 door, and wait to obtain the recipient's signature. The cost of these additional
10 activities is estimated using witness Davis' methodology (Docket No. R2000-1,
11 USPS-T-30) of subtracting the rural and city unit delivery costs of delivering the
12 host mailpiece (the mailpiece on which Signature Confirmation is purchased)
13 from the rural and city unit delivery costs for certified mail (which requires a
14 signature). The Priority Mail, Package Services, and Parcel Select products use
15 Priority Mail delivery costs as a proxy for the host mailpiece, while the Letters
16 and Sealed Parcels subclass and Standard Mail products use the First-Class
17 Mail Letters and Sealed Parcels (without cards) delivery cost as a proxy for the
18 host mailpiece cost. See Docket No. R2001-1, USPS-LR-J-135, Input Sheet B-4:
19 Deviation Delivery, for the detailed calculations.

20 As established by witness Davis, Signature Confirmation has more
21 scanning-related time than Delivery Confirmation. In addition to the 2.46 seconds
22 of scan time for the mailpiece barcode in the Delivery Confirmation service,
23 another 2.46 seconds has been added for the scan time of the PS Form 3849

1 barcode. In addition, the time to return the scanner is included in the analysis,
2 but not the time to retrieve the scanner since this activity can be performed while
3 the carrier is waiting for the addressee. As was the case for Delivery
4 Confirmation, new analysis improves estimates of the unit volume variable costs
5 of rural carrier scans for delivered and attempted delivery of Signature
6 Confirmation mail items, by using the time permitted under the labor agreement
7 of 28 seconds per scan.

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

14 Updated operational information on accessing information has also been
15 incorporated. My testimony reflects the availability of updated information for
16 wage rates, piggyback factors, call center/internet information request
17 percentages, email, mail, and fax signature information percentages, operational
18 changes in the process of sending signature information to mailers, and costs for
19 corporate call management, postmasters, information systems, and supplies.

20

1 C. Results

2

3 Table 2 presents the total volume variable costs for both the electronic
 4 and manual options for Priority Mail and parcels in Package Services, and for
 5 parcels in the Letters and Sealed Parcels subclass of First-Class Mail. For each
 6 option, the volume variable costs are presented by subclass. Priority Mail and
 7 Package Services costs are the same, and therefore are presented together.

Table 2: Test Year Signature Confirmation Unit Volume Variable Costs				
Cost Category	Electronic		Manual	
	Priority Mail and Package Services	Letters and Sealed Parcels	Priority Mail and Package Services	Letters and Sealed Parcels
Acceptance	\$0.0000	\$0.0000	\$0.2088	\$0.2088
Delivery	\$1.0902	\$1.2872	\$1.0902	\$1.2872
Postmasters	\$0.0071	\$0.0071	\$0.0100	\$0.0100
Provision of Confirmation	\$0.0139	\$0.0139	\$0.0197	\$0.0197
Information systems	\$0.0032	\$0.0032	\$0.0024	\$0.0024
Supplies	\$0.0000	\$0.0000	\$0.0050	\$0.0050
Total volume variable cost	\$1.1143	\$1.3114	\$1.3360	\$1.5331

8 V. RETURN RECEIPT COST UPDATES

9 A. Overview

10

11 Several options are available to return receipt users. In addition to the
 12 traditional return receipts (green card), the electronic return receipt, return

1 receipts for merchandise, and return receipts after mailing are available for
2 purchase at the retail counter.

3 For the electronic return receipt (eRR), the customer purchases the
4 service at the retail window at the time of mailing. After mailing, the customer
5 goes to www.usps.com, selects "Track and Confirm," enters the label number(s),
6 selects "Request Return Receipt (electronic)", and then enters his/her name and
7 email address. After delivery of the accountable piece, the customer will
8 automatically be sent the delivery date and time information, and a digital image
9 of the signature from the accountable mailpiece, via a secure, digitally encrypted
10 email transmission.

11

12 B. Methodology

13

14 For all return receipts, I rely on the methodology presented by witness
15 Nieto (USPS-T-26) in Docket No. R2001-1, and update costs with new wage
16 rates and piggyback factors.

17

18 For return receipts after mailing, I calculate a single unit cost for the
19 purchase transaction (assuming all purchases are done at the retail window), and
20 add the cost for returning the return receipt (by fax, mail, or email). The details of
21 these calculations are found in library reference K-60, Worksheet W-7.

22

23 For electronic return receipt, acceptance costs are based upon the
24 existing return receipt acceptance window transaction time. The signature for the
25 accountable mailpiece is collected at delivery on Form 3849, which is then
26 scanned, and stored electronically using the Electronic Signature Capture

1 system. Since the electronic return receipt uses that signature, it causes no
2 additional costs for delivery or scanning activities.

3 Once the signature is electronically available in the system, and the
4 customer has entered his/her email address as mentioned above, the electronic
5 return receipt will be sent via email to the customer. Unit costs for the digital
6 transmission of the encrypted signature are based on estimates provided by
7 Docket No. R2001-1 witness Nieto. These calculations are also presented in my
8 library reference (USPS-LR-K-60, Worksheet W-5).

9

10 C. Results

11

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

Table 3: Test Year Unit Volume Variable Costs for Return Receipts	
Service	Cost
Return Receipts	
Non-Merchandise	\$1.4331
After Mailing	\$2.2315
Merchandise	\$2.3173
Electronic Return Receipt	\$0.8895

14

1 VI. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY

2 The substantive changes between my cost models, found in LR-K-60, and
 3 the PRC version presented in LR-K-105 are the use in LR-K-105 of the following
 4 PRC version inputs: cost components derived from the Cost Segment and
 5 Component report (LR-K-94), roll forward costs (LR-K-96), piggyback factors
 6 (LR-K-98), and MODS costs (LR-K-100). In response to Commission Rule 53,
 7 table 4 compares the test year cost estimates produced in LR-K-60 to the test
 8 year cost estimates produced in the PRC version LR-K-105.

9

TABLE 4: Test Year Unit Volume Variable Cost Comparison

<u>Service</u>	<u>LR-K-60</u>	<u>LR-K-105</u>
Delivery Confirmation		
Priority Mail Electronic	\$0.0000	\$0.0000
Priority Mail Manual (excludes cost allocated to base)	\$0.4118	\$0.4149
First-Class Mail Electronic	\$0.1123	\$0.1206
First-Class Mail Manual	\$0.5240	\$0.5353
Standard Mail Electronic	\$0.1123	\$0.1206
Package Services Electronic	\$0.1123	\$0.1206
Package Services Manual	\$0.5240	\$0.5353
Parcel Select Electronic	\$0.0000	\$0.0000
Signature Confirmation		
Priority Mail Electronic	\$1.1143	\$1.2357
Priority Mail Manual	\$1.3360	\$1.5156
Package Services Electronic	\$1.1143	\$1.2357
Package Services Manual	\$1.3360	\$1.5156
First-Class Mail Electronic	\$1.3114	\$1.4456
First-Class Mail Manual	\$1.5331	\$1.7256
Return Receipt		
Non-Merchandise	\$1.4331	\$1.4476
Merchandise	\$2.3173	\$2.4624
After Mailing	\$2.2315	\$2.2527
Electronic	\$0.8895	\$0.8932

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

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

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