

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

NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING OF REVISION TO
THE DIRECT TESTIMONY OF ABDULKADIR M. ABDIRAHMAN(ERRATA)
(May 24, 2005)

The United States Postal Service hereby provides notice that it is filing revisions to the Direct Testimony of Abdulkadir M. Abdirahman. The revisions reflect the incorporation into witness Abdirahman's testimony of Section III of witness Moser's original testimony on Address Correction Service. See Notice of United States Postal Service on Replacement of Witness Moser (May 20, 2005). The revisions also reflect that witness Page will take over witness Moser's testimony on final adjustments. Finally, the revisions reflect changes to the testimony that result from the revisions to library references USPS-K-48 and USPS-K-110, which were filed today. Because these changes impact numerous pages, the entire testimony has been refiled.

Specifically, the testimony amends the Table of Contents to reflect the addition of the Address Correction Service and the sponsorship of Attachment 1 to USPS-K-59 on Address Correction Service. Page 1 lines 7 and 30 replace witness Page for witness Moser. Page 1, line 12, adds that witness Abdirahman will also sponsor Attachment 1 to USPS-K-59. Page 1, line 18 removes the reference to witness Taufique since he does not sponsor the USPS-LR-K-77. Page 2, line 15, adds USP-J-69 as a data source.

Page 16, Table 1 is revised to reflect the updated unit cost and work sharing related savings from USPS-LR-K-48. Page 17 inserts a new section on Address Correction Service, which includes a table depicting the Test Year ACS Costs. Page 18, Table 2 is renumbered to Table 3 and now reflects the updated numbers from USPS-LR-K-48 and USPS-LR-K-110. It also adds a comparison of the Postal Service version and Postal Rate Commission version of ACS costs.

The revised testimony is attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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May 24, 2005

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.

Nan K. McKenzie

USPS-T-21

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**DIRECT TESTIMONY
OF
ABDULKADIR M. ABDIRAHMAN
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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**DIRECT TESTIMONY
OF
ABDULKADIR M. ABDIRAHMAN**

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6

AUTOBIOGRAPHICAL SKETCH

7 My name is Abdulkadir M. Abdirahman. I have testified before the Postal Rate
8 Commission on two separate occasions. In Docket No. R2001-1, I testified before the
9 Commission on the costing of Special Services. In Docket No. MC2005-1, I testified as
10 a cost witness concerning Premium Forwarding Service (PFS).

11 I am an economist for the Special Studies Division of Corporate Financial
12 Planning since 2001. I began working for the Postal Service in 1989 as a letter carrier
13 and later became a distribution and retail window clerk. In that capacity, I was
14 responsible for explaining and selling to postal customers a variety of postal products
15 including the different kinds of Special Services that the Postal Service offers.

16 In the private sector, I worked as an economic consultant for Amal Express
17 International, an export and import firm based in Dubai, United Arab Emirates. In that
18 capacity, I conducted market feasibility cost studies and developed labor cost estimates
19 concerning livestock exports. I have also performed consulting work for the United
20 Nations on issues related to peacekeeping deployments in Africa.

21 I earned a Bachelor Degree in Management from National Louis University in
22 Evanston, Illinois in 1990 and a Master Degree in International Transactions with a
23 concentration in International Economics in 1996 from George Mason University in
24 Fairfax, Virginia.

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony presents the Test Year (TY) 2006 First-Class Mail cards and letters and Standard Mail letters mail processing unit cost estimates, worksharing related savings estimates, and nonmachinable surcharge additional cost estimates, which are being provided in light of the Postal Rate Commission's views expressed in Docket No. R94-1, PRC Op., R94-1, Vol. I, at 10. Some of the estimates are also relied upon by witness Page (USPS-T-23) for use in developing the final adjustments.

II. ASSOCIATED LIBRARY REFERENCE

I am sponsoring the following Category 2 library references in association with my testimony: USPS-LR-48, Test Year Letter/Card Processing Cost Models (FCM, Standard Mail, and Nonmachinable Surcharge), and USPS-LR-K-68, Acceptance Rate Study. I also sponsor Attachment 1 of Library Reference USPS-LR-K-59 on the Address Correction Service

III. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

I develop my cost estimates using inputs I obtain from the following witnesses in this case: Witness Smith (USPS-T-13) provides piggyback factors (USPS-LR-K-52) and CRA mail processing unit cost estimates (USPS-LR-53); witness Van-Ty-Smith (USPS-T-11) provides volume variability factors, premium pay factors and deaveraged wage rates (USPS-LR-K-55); witness Kelley (USPS-T-16) provides delivery unit cost estimates (USPS-LR-K-67); and witness Bozzo (USPS-T-12) provides MODS productivities (USPS-LR-K-56) . I use billing determinant data from the following Category library 1 reference: (USPS-LR- 77). I also sponsor USPS-LR-K-68 as a source for acceptance rate data, which I use to develop the cost estimates in USPS-LR-K-48.

My test year cost estimates are provided to witnesses Robinson (USPS-T-27) and Taufique (USPS-T-28); I provide to witness Hatcher (USPS-T-22) operation specific piggyback factors, operation specific volume variability factors and Bulk Metered Mail (BMM) CRA adjustment factor for use in developing the test year cost avoidance for a QBRM piece. I also provide the acceptance data to witness Hatcher. The test year unit cost estimates for automation and nonautomation letters and cards are also relied upon by witness Page (USPS-T-23) for use in developing final adjustments.

1 **IV. DATA SOURCES**

2 Numerous data sources have been used to calculate the cost estimates included
3 in this testimony, as indicated below.

4 <u>Docket No.</u>	<u>Data Description</u>	<u>Data Source</u>
5 R2005-1	USPS-T-21 Electronic Spreadsheets	LR-K-48
6	Acceptance Rates	LR-K-68
7	Piggyback Factors	LR-K-52
8	CRA Mail Processing Unit Cost Estimates	LR-K-53
9	Wage Rates / Premium Pay Factors	LR-K-55
10	MODS Productivities	LR-K-56
11	Base Year Mail Volumes	LR-K-77
12	Delivery Unit Cost Estimates	LR-K-67
13		
14 R2001-1	Accept and Upgrade Finalization	LR-J-62
15	Cost Models for ACS	LR-J-69
16		
17 R2000-1	Mail Flow Densities	USPS-T-24
18	Carrier Route Finalization Rate For Plants	USPS-T-24A
19		
20 R97-1	Standard Regular Mail Characteristics	LR-H-105
21	Accept and Upgrade Rates	LR-H-130
22	First-Class Mail Characteristics	LR-H-185
23	Standard Nonprofit Mail Characteristics	LR-H-195
24	AADC Tray Factor	LR-H-128
25		
26 MC95-1	Bundle Sorting Productivity	USPS-T-10B
27	Post Office Box Productivities	USPS-T-10F
28	Post Office Box Coverage Factor	USPS-T-10I
29	Bundle Sorting Information	USPS-T-10
30		(WP VII)
31		

32 **V. LETTER/CARD TOTAL MAIL PROCESSING UNIT COST ESTIMATES AND**
33 **WORKSHARING RELATED SAVINGS ESTIMATES**

34 The cost methodology that was used in Docket No. R2001-1 has again been
35 used in this docket to develop letter and card total mail processing unit cost estimates
36 and worksharing related savings estimates by rate category.

A. TOTAL MAIL PROCESSING UNIT COST METHODOLOGY

In past dockets, the Commission has employed a “hybrid” cost methodology that uses both Cost and Revenue Analysis (CRA) mail processing unit costs and model-based mail processing unit costs to estimate the worksharing related savings.¹ I rely on a hybrid cost methodology in this docket. The total mail processing unit cost estimates and worksharing related savings estimates are summarized below in Table 1 on page 15.

1. CRA MAIL PROCESSING UNIT COSTS

My analysis relies upon shape-specific CRA mail processing unit costs.² The CRA mail processing unit costs are subdivided into 63 cost pools. Each cost pool represents a specific mail processing task performed at either Bulk Mail Centers (BMC), Management Operating Data System (MODS) plants, or non-MODS plants. The costs are “mapped” to each cost pool using the Productivity Information Management System (PIMS) or MODS operation number associated with each IOCS tally.

Each cost pool is classified into one of three categories: worksharing related proportional, worksharing related fixed, or non-worksharing related fixed.³

The “worksharing related proportional” cost pools contain the costs for piece or bundle distribution operations that are directly affected by the presorting and/or prebarcoding activities performed by mailers. These cost pools are “proportional” in that the magnitude of the costs, and therefore worksharing related savings, are directly related to the specific level of presorting and/or prebarcoding. In addition, these cost pools contain the costs for the tasks that have actually been modeled. The bar code sorter (“/bcs”) cost pool is an example of a worksharing related proportional cost pool.

The “worksharing related fixed” cost pools contain costs for other activities that are also affected by worksharing. However, these costs do not vary as a direct result of the specific worksharing options chosen by a given mailer. These costs represent tasks that have not actually been modeled. The business mail entry and verification (“LD79”) cost pool is an example of a worksharing related fixed cost pool. As an example, the acceptance and verification unit costs for automation 3-digit and automation 5-digit letter

¹ PRC Op., MC95-1 at paragraph 4221.

² Docket No. R2005-1, USPS LR-K-53.

³ Docket No. R2005-1, USPS LR-K-48.

1 mail should be roughly the same. Had a proportional classification been used, the cost
2 difference between these two rate categories would have been artificially expanded
3 after the model costs were tied back to the CRA. Thus, assigning these costs as
4 worksharing related fixed is reasonable.

5 The “non-worksharing fixed” category consists of those remaining costs that are
6 not affected at all by the types of worksharing activities covered in this testimony. The
7 Express Mail (“express”) cost pool is an example of a non-worksharing related fixed cost
8 pool.

9 **2. MODEL-BASED MAIL PROCESSING UNIT COSTS**

10 I have updated the cost models used by witness Miller in Docket No. R2001-1 to
11 de-average an appropriate CRA mail processing unit cost category. Cost models have
12 been developed for each rate category. For example, I have updated cost models for
13 the First-Class Mail letters automation mixed Automated Area Distribution Center
14 (AADC), AADC, 3-digit, 5-digit, and carrier route presort rate categories. These models
15 are then used to de-average the CRA mail processing unit costs for “First-Class
16 automation presort letters.”

17 Each of my cost models consists of two spreadsheets: a mail flow spreadsheet
18 and a cost spreadsheet.⁴ These spreadsheets are used to calculate model costs. A
19 weighted model cost for all the rate categories being de-averaged is then computed
20 using base year mail volumes and is tied back to the CRA using adjustment factors.
21 These factors are then applied to the model costs in order to estimate the total mail
22 processing unit costs by rate category.

23 **a. MAIL FLOW SPREADSHEET**

24 For this docket, I have used updated mail flow spreadsheets that incorporate
25 recent mail processing changes.⁵ Each spreadsheet “flows” 10,000 mail pieces through
26 the mail processing network. This network is represented by a series of boxes
27 (operations) and arrows on each spreadsheet that “flow” mail to other operations using
28 the various inputs described below. Each box is separated into two parts. The right-
29 hand section represents the actual number of physical pieces processed in a given

⁴ The methodology for estimating First-Class Mail cards costs is somewhat different. Card/letter cost ratios are applied to letter model costs using the same methodology that has been used in the past several dockets.

⁵ Docket No. R2005-1, USPS LR-K-48.

1 operation. The left-hand section is equal or higher in value and reflects the fact that
2 some pieces are processed through a given operation more than once. The latter
3 values are what are ultimately accessed by the cost sheet and used to calculate model
4 costs.

6 **i. ENTRY PROFILE**

7 The 10,000 pieces are initially input into the “PCS IN” box at the top of each mail
8 flow spreadsheet. Data from the “ENTRY PROFILE” spreadsheet then distribute these
9 10,000 pieces to the appropriate operation(s) in the “ENTRY POINTS” section based on
10 their presort level. The entry profile data have been taken from the mail characteristics
11 studies conducted for Docket No. R97-1.⁶ Each operation then pulls the “ENTRY
12 POINTS” mail volumes directly into the appropriate cell.

13 **ii. COVERAGE FACTORS**

14 In general, a coverage factor represents the amount of mail that has access to a
15 specific type of equipment. Coverage factors are expressed in percentage terms and
16 have historically been used in the letter mail processing cost models.

17 From the early 1990’s to the present, the Postal Service has invested
18 significantly in letter automation technology. In past rate proceedings, much of this
19 technology was in the process of being deployed such that the application of coverage
20 factors had a big impact on the cost model results. In today’s environment, these
21 projects have been fully implemented. As a result, equipment coverage factors are no
22 longer required to accurately model letter mail processing operations. Therefore, I do
23 not use them in the letter cost models in my testimony. This methodology is consistent
24 with that used in the Docket No. R2001-1 cost studies.

25 **iii. ACCEPT AND UPGRADE (FINALIZATION) RATES**

26 The accept and upgrade rates, or finalization rates, utilized in my spreadsheets
27 reflect the fact that, for a variety of reasons, some machinable mail will not be accepted
28 by the different types of automated letter mail processing equipment and will have to be
29 diverted to manual operations for processing. These accept and upgrade rates come
30 from two sources.

⁶ Docket No. R97-1, USPS LR-H-105, LR-H-185, and LR-H-195.

1 The Input Sub System (ISS) finalization rates have been taken from engineering
2 studies. The accept and upgrade study was originally conducted for Docket No. R97-1.⁷
3 Since that time, the Postal Service has continued to improve ability of the Multi-Line
4 Optical Character Reader Input Sub System (MLOCR-ISS) and Remote Computer
5 Read (RCR) systems to finalize mail. Consequently, data from recent engineering
6 studies that measure the aggregate MLOCR-ISS / RCR rate have been used in the mail
7 flow spreadsheets. Separate data were available for mail pieces with machine printed
8 addresses and mail pieces with handwritten addresses. Each figure was increased an
9 additional eight percentage points to reflect improvements associated with the Letter
10 Recognition Enhancement Program.⁸ This program further increased the aggregate
11 MLOCR-ISS/RCR finalization rate to 92.3%.

12 The accept and upgrade rates for the Output Sub Systems (OSS) and the
13 automation accept rates that are used for Bar Code Sorter (BCS) mail processing
14 operations in the mail flow spreadsheets are taken from the data collected during the
15 1999 Letters / Cards Mail Flow Densities Study described in Docket No. R2000-1
16 USPS-T-24, page 6 at 18-24.⁹

17 **iv. MAIL FLOW DENSITIES**

18 A "sort plan" is a software program which designates the bin on mail processing
19 equipment to which each mail piece is sorted based on ZIP Code information. The term
20 "density" refers to the percentage of mail that is sorted to a given bin using a given sort
21 plan. In my mail flow spreadsheets, density percentages are used to flow mail to
22 succeeding operations. In Docket No. R2000-1, the mail flow densities were updated
23 using the results from a field study conducted under witness Miller's direction.¹⁰ Those
24 same figures have been used here.

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⁷ Docket No. R97-1, USPS LR-H-130.

⁸ Docket No. R2001-1, USPS LR-J-62.

⁹ See Docket No. R2005-1, USPS-LR-K-68.

¹⁰ See R2000-1, USPS-T-24, page 6 at lines 18-24. As noted in that testimony, a description of the study can be found in Docket No. R2000-1, USPS-T-24, Appendix IV, while the supporting data can be found in Docket No. R2000-1, USPS-T-24, Workpaper 1.

v. MISCELLANEOUS FACTORS

Several miscellaneous factors are also used to flow mail through the models. These factors include: the Automated Area Distribution Center (AADC) tray factor, the RBCS leakage rate, the automated incoming secondary factors, the automation carrier route Carrier Sequence Bar Code Sorter (CSBCS) factor, the Carrier Route finalization rate for plants, and the Post Office Box destination factor.

AADC Tray Factor: The AADC tray factor represents the percentage of letter mail that must first be processed through a Managed Mail Program (MMP) operation at an AADC before being routed to the destinating facility. For purposes of my testimony, I rely upon the coverage factor study submitted in Docket No. R97-1.¹¹ In my cost models, it is applied to the mail characteristics data in the entry profile spreadsheets.

RBCS Leakage Rate: "Leakage" refers to the situation where a mail piece is finalized by the Remote Computer Read (RCR) system or the Remote Encoding Center (REC), but the result is never obtained from the Decision Storage Unit (DSU). In Docket Nos., R97-1 and R2000-1, the operations leakage target of 5% was used. In this docket, I use the actual Remote Bar Code System (RBCS) leakage rate of 6.10%.

Automated Incoming Secondary Factors: Mail can be finalized in a variety of incoming secondary operations (e.g., delivery point sequence) based on the depth-of-distribution commitment for a given ZIP Code. The percentage of mail processed in each type of incoming secondary operation is calculated using data from the Finalization on Automation Secondary Tracking (FAST) system on the Corporate Information System (CIS) database.¹²

Automation Carrier Route CSBCS Factor: The automation carrier route rate category can only be used for mail that destinate at ZIP Codes which use the CSBCS to finalize their mail in Delivery Point Sequence (DPS), or ZIP Codes for which an automated incoming secondary operation does not sort the mail beyond the carrier route level. Therefore, it is necessary to estimate the volume of mail that destinate at CSBCS facilities. The FAST data were once again used for this purpose. This factor

¹¹ Docket No. R97-1, USPS LR-H-128.

¹² GFY2004 FAST Data from the Corporate Information System (CIS) were used in this docket.

1 was calculated by dividing the 3-Pass DPS (CSBCS) percentage by the sum of the 3-
2 Pass DPS, Carrier Route, and Delivery Unit percentages.

3 **Carrier Route Finalization Rate For Plants:** This factor refers to the percentage
4 of manual incoming secondary mail that is finalized to the carrier route level at plants.
5 Because the incoming secondary productivity for plants is lower than the corresponding
6 productivity for Delivery Units, it is necessary to separate this mail from the mail that is
7 finalized to the carrier route level at Delivery Units (DU). Once again, FAST data are
8 used to perform this calculation. Even though this factor only affects manual
9 operations, the automation data contained in FAST are used as a proxy, given the
10 absence of any other data source.¹³

11 **Post Office Box Destination Factor:** After being finalized in either an
12 automation incoming secondary or manual incoming secondary operation, mail for post
13 office boxes is then routed to a box section where a clerk sorts the mail into the
14 appropriate boxes. The factor that is used to estimate box section mail volumes has
15 been taken from the coverage factor calculations performed for Docket No. MC95-1.¹⁴

16 The data inputs described above are used in my mail flow spreadsheets to “flow”
17 10,000 mail pieces through a modeled representation of the postal mail processing
18 network. After the 10,000 mail pieces are finalized in either an automation or manual
19 incoming secondary operation, the finalized mail volumes are totaled for each of those
20 operations and the sum is entered in the “PCS OUT” box at the top of the page. This
21 calculation is performed to ensure that all 10,000 pieces that are entered into the model
22 are also processed through the model. The two automation 5-digit presort mail flow
23 models are the exception. The sum of the mail pieces in the "PCS OUT" box from both
24 mail flow spreadsheets combined equals 10,000 mail pieces.

25 **b. COST SPREADSHEET**

26 Each cost spreadsheet accesses the mail volumes from each operation in the
27 corresponding mail flow spreadsheet.¹⁵ This volume information, in conjunction with the
28 other data inputs described below, is used to calculate a mail processing cost for the
29 mail volumes flowing through each operation. Each operation cost is then divided by

¹³ Docket No. R2000-1, Attachment USPS-T-24A.

¹⁴ Docket No. MC95-1, USPS-T-10.

¹⁵ Docket No. R2005-1, USPS LR-K-48.

1 the "PCS OUT" mail volumes in order to determine the weighted operation cost. The
2 sum of these weighted operation costs is the model cost.

3 **i. MARGINAL (VOLUME VARIABLE) PRODUCTIVITIES**

4 For my cost model spreadsheets, productivity values by operation have been
5 calculated using GFY 2004 MODS data.¹⁶ The marginal productivity values are
6 calculated by dividing the MODS productivity values for each operation by the volume
7 variability factors found in USPS-T-11, Table 1.¹⁷

8 **ii. WAGE RATES**

9 Two separate wage rates are used to calculate model costs. The first wage rate
10 reflects the wages for mail processing employees working at REC sites. The "other mail
11 processing" wage rate is an aggregate rate for all other mail processing employees who
12 do not work at REC sites.¹⁸

13 **iii. "PIGGYBACK" (INDIRECT COST) FACTORS**

14 "Piggyback" factors are used to estimate indirect costs.¹⁹ I used the GFY 2004
15 MODS mail volumes by machine type to calculate weighted piggyback factors for Bar
16 Code Sorter (BCS) operations. This methodology is consistent with the one used by the
17 Commission in Docket No. R2001-1.²⁰

18 **iv. PREMIUM PAY FACTORS**

19 Premium pay factors are used to account for the fact that employees earn
20 "premium pay" for evening and Sunday work hours. In general, First-Class Mail is
21 processed during the premium pay time periods (Tours 3 and 1) while Standard Mail is
22 processed during regular business hours (Tour 2).²¹ Therefore, the First-Class Mail
23 factor is greater than the Standard Mail factor.²²

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¹⁶ Docket No. R2005-1, USPS LR-K-56.

¹⁷ Weighted volume variability factors are developed for Bar Code Sorter (BCS) factors using GFY2004 MODS data concerning the percentage of mail for a given operation that is processed on the Delivery Bar Code Sorter (DBCS) compared to the Mail Processing Bar Code Sorter (MPBCS).

¹⁸ Docket No. R2005-1, USPS LR-K-55.

¹⁹ Docket No. R2005-1, USPS LR-K-52.

²⁰ Docket No. R2001-1, PRC-LR-4.

²¹ Some Standard Mail processing, like the second pass of DPS, does occur during Tours 1 and 3.

1 **v. BUNDLE SORTING COSTS**

2 Bundles can be used to prepare letter mail in specific instances. For example,
3 First-Class Mail and Standard Mail “MANUAL” trays can contain bundles. My
4 calculation of the costs related to bundle sorting is consistent with the methodology
5 relied upon by the Commission in Docket No. R2001-1.²³

6 **vi. DPS PERCENTAGES**

7 The percentage of mail that is finalized in Delivery Point Sequence (DPS)
8 operations is calculated on the cost spreadsheet for each respective rate category.
9 These percentages are the sum of the mail volumes finalized in both the Carrier
10 Sequence Bar Code Sorter (CSBCS) and DBCS incoming secondary operations in the
11 mail flow spreadsheet, divided by the total 10,000 mail pieces processed in that same
12 mail flow spreadsheet. The DPS percentages are used to estimate delivery unit costs
13 by rate category.²⁴

14 **c. CRA ADJUSTMENTS**

15 The model costs for each rate category are weighted together using base year
16 mail volumes.²⁵ The sum of the CRA worksharing related proportional cost pools is
17 then divided by this weighted model cost in order to calculate the CRA proportional
18 adjustment factor. The costs for the remaining two cost pool classifications are used as
19 fixed adjustments. The total mail processing unit costs are calculated as follows:

20
21 (Mail Processing Model Unit Cost) * (Worksharing Related Proportional Adjustment
22 Factor) + (Worksharing Related Fixed Factor) + (Non-Worksharing Related Fixed
23 Factor)

24
25 This methodology is identical to that relied upon by the Commission in Docket No.
26 R2000-1.²⁶

27
28
29
30
²² Docket No. R2005-1, USPS LR-K-55.

²³ Docket No. R2001-1, PRC-LR-4.

²⁴ Docket No. R2005-1, USPS LR-K-67.

²⁵ Docket No. R2005-1, USPS LR-K-77.

1
2 **B. WORKSHARING RELATED SAVINGS COST METHODOLOGY**

3 In Docket No. R2000-1, witness Miller used an improved worksharing related
4 savings calculation that was subsequently relied upon by the Commission.²⁷ I also use
5 that methodology in this docket. In cases where the CRA mail processing unit costs
6 are available and cost models are not required, the mail processing worksharing related
7 unit costs are equivalent to the sum of the “worksharing related proportional” and
8 “worksharing related fixed” cost pools. For those cases where model costs are used to
9 de-average CRA mail processing unit costs, the mail processing worksharing related
10 unit costs are calculated as follows:

11
12 (Mail Processing Model Unit Cost) * (Worksharing Related Proportional Adjustment
13 Factor) + (Worksharing Related Fixed Adjustment Factor)
14

15 **1. FIRST-CLASS MAIL LETTERS**

16 The methodology that I use to calculate the First-Class Mail letters worksharing
17 related savings by rate category is the same as that used in Docket Nos. R2000-1 and
18 2001-1. The worksharing related mail processing unit cost for a given benchmark is
19 compared to the worksharing related mail processing unit cost for a specific rate
20 category.

21 **a. BENCHMARKS**

22 As was the case in Docket No. R2000-1 and R2001-1, I rely on Bulk Metered
23 Mail (BMM) letters as the benchmark for First-Class Mail nonautomation presort letters,
24 automation mixed AADC presort letters, automation AADC presort letters, automation 3-
25 digit presort letters, and automation 5-digit presort letters. As the Commission
26 discussed in Docket No. R2000-1, BMM letters is the mail most likely to convert to
27 worksharing.²⁸ Given that postal data collection systems cannot isolate a cost estimate
28 for BMM letters, a proxy must be used. In Docket No. R2001-1, the mail processing unit
29 cost estimate for First-Class Mail single-piece metered letters was relied upon as the
30 proxy for BMM letters. I use that same proxy in the the instant proceeding.

²⁶ Docket No. R2000-1, PRC-LR-12.

²⁷ Docket No. R2000-1, PRC-LR-12.

²⁸ PRC Op., R2000-1, paragraph 5089.

1 In Docket No. R2001-1, witness Miller assumed that the delivery unit costs for
2 BMM letters were the same as the delivery unit costs for First-Class Mail machinable
3 mixed AADC nonautomation presort letters. That same assumption is again used in
4 this docket.

5 For the automation carrier route presort rate category, the benchmark is an
6 automation 5-digit presort mail piece that destinate at either a CSBCS or manual site.²⁹

7 **b. CRA MAIL PROCESSING UNIT COSTS**

8 It is possible to isolate mail processing unit costs for First-Class Mail
9 nonautomation presort letters from the CRA. Therefore, cost models are not required to
10 determine the total mail processing unit costs for this rate category. However, models
11 have been included that isolate the costs for machinable and nonmachinable mail
12 pieces at each presort level in order to support the nonmachinable surcharge.³⁰ CRA
13 mail processing unit costs are also obtained for First-Class Mail automation presort
14 letters. Models for the other rate categories (automation mixed AADC, AADC, 3-digit, 5-
15 digit, and carrier route presort) are used to de-average these costs.

16 **c. COST MODELS**

17 In addition to the nonautomation presort cost models described above, there are
18 six cost models for the automation presort rate categories: automation mixed AADC,
19 automation AADC, automation 3-digit, automation 5-digit CSBCS/manual sites and
20 automation 5-digit other sites, and automation carrier route. The aggregate costs for
21 the two 5-digit models are used to calculate the total mail processing unit costs and
22 worksharing related savings for the 5-digit rate category.

23 As stated above, the “automation 5-digit CSBCS/manual sites” results are used
24 as the benchmark for First-Class Mail automation carrier route presort because
25 automation carrier route presort letters must be destined for either CSBCS or manual
26 sites. The 5-digit presort mail that destinate at those same sites is therefore the
27 appropriate benchmark.

28
29

²⁹ By definition, the only First-Class letters and cards that qualify for automation carrier route presort rates are those mail pieces that destinate at either a CSBCS or manual site.

³⁰ That cost study can be found in Section IV of this testimony.

1 **d. WORKSHARING RELATED SAVINGS CALCULATIONS**

2 The worksharing related savings are calculated using the same methodology
3 relied upon by the Commission in Docket No. R2000-1:³¹

4
5 [(Benchmark Worksharing Related Mail Proc Unit Costs) + (Delivery Unit Costs)] -
6 [(Rate Category Worksharing Related Mail Proc Unit Costs) + (Delivery Unit Costs)]
7 = Worksharing Related Savings

8
9 **2. FIRST-CLASS MAIL CARDS**

10 The methodology that I used to calculate the First-Class Mail cards worksharing
11 related savings is the same as that used for First-Class Mail letters, with one exception.

12 **a. BENCHMARKS**

13 There is no cost benchmark for First-Class Mail cards similar to the BMM letter
14 mail benchmark used for First-Class Mail letters. As a result, there is no worksharing
15 related savings estimate calculated for nonautomation presort cards. The automation
16 carrier route presort cards category uses a 5-digit benchmark similar to that described
17 above for letters. The remaining card rate categories (automation AADC, AADC, 3-
18 digit, and 5-digit) use the nonautomation presort cards rate category as the benchmark.

19 **b. CRA MAIL PROCESSING UNIT COSTS**

20 It is possible to obtain the same CRA mail processing unit costs for cards as it is
21 for letters: nonautomation presort and automation presort. The first is a rate category
22 for which the CRA provides estimates. Accordingly, no cost models are required.
23 Models for the remaining rate categories (automation AADC, AADC, 3-digit, 5-digit, and
24 carrier route presort) are used to de-average the latter category.

25 **c. COST MODELS**

26 The letter models contain many data inputs that represent “average” data for
27 both letters and cards. Since the mail volumes processed through the operations in my
28 models are predominantly letters, these “average” data can be used to accurately model
29 letters mail processing costs. These data, however, may not accurately reflect the costs

³¹ Docket No. R2000-1, PRC-LR-12.

1 for cards. As a result, a card/letter cost ratio is used to estimate the model costs for
2 each card rate category. This ratio is calculated as shown below.³²

3
$$\text{Card/Letter Cost Ratio} = (\text{Card CRA Mail Proc Unit Costs} / \text{Presort Mix Adjustment}$$

4
$$\text{Factor}) / \text{Letters CRA Mail Proc Unit Costs}$$

5
6 The model costs for each card rate category are then calculated using these
7 ratios as follows:³³

8
9
$$\text{Card Rate Category Model Cost} = \text{Card/Letter Cost Ratio} * \text{Corresponding Letter Rate}$$

10
$$\text{Category Model Cost}$$

11
12 Finally, a weighted card model cost is calculated using base year mail volumes.
13 It is then tied back to the CRA mail processing unit costs for cards using the same
14 adjustment factors and cost methodology that are applied to letters.

15 **d. WORKSHARING RELATED SAVINGS**

16 The worksharing related savings for the First-Class Mail automation presort
17 cards rate categories are calculated as follows.³⁴

18
19
$$[(\text{Benchmark Worksharing Related Mail Proc Unit Costs}) + (\text{Delivery Unit Costs})] -$$

20
$$[(\text{Rate Category Worksharing Related Mail Proc Unit Costs}) + (\text{Delivery Unit Costs})]$$

21
$$= \text{Worksharing Related Savings}$$

22 **3. STANDARD LETTERS**

23
24 The methodology that I use to calculate the worksharing related savings for
25 Standard Mail letters is also the same as that relied upon by the Commission in Docket
26 No.R2000-1.³⁵

27 **a. BENCHMARKS**

28 The benchmark for the Standard nonautomation basic letters rate category is the
29 Standard nonautomation flats rate category. In other words, the savings estimate is
30 based on the letter/flat cost differential. The benchmarks for the Standard automation
31 rate categories are other rate categories as shown below in Table 1 on page 16.

32

³² A presort mix adjustment factor is used to reflect the fact that the presort mixes for letters and cards are slightly different.

³³ Docket No. R2005-1, USPS LR-K-48.

³⁴ Docket No. R2005-1, USPS LR-K-48.

³⁵ Docket No. R2000-1, PRC-LR-12.

1 **b. CRA MAIL PROCESSING UNIT COSTS**

2 Separate CRA mail processing unit costs have been obtained for the
3 nonautomation and automation rate categories. Unlike the First-Class Mail rate
4 structure, Standard nonautomation presort has two rate categories: nonautomation
5 basic and nonautomation 3/5-digit. Therefore, cost models must also be used to de-
6 average the costs for Standard nonautomation presort letters.

7 **c. COST MODELS**

8 As with First-Class Mail letters, nonautomation presort models have been
9 included that isolate the costs for machinable and nonmachinable mail pieces at each
10 presort level in order to support the nonmachinable surcharge. Aggregate costs have
11 then been developed for each of the two rate categories.

12 In addition, four cost models have been created for the automation presort rate
13 categories: automation mixed AADC, automation AADC, automation 3-digit, and
14 automation 5-digit.

15 **d. WORKSHARING RELATED SAVINGS CALCULATIONS**

16 The worksharing related savings are calculated using the same methodology
17 relied upon by the Commission in Docket No. R2000-1:³⁶

18
19
$$[(\text{Benchmark Worksharing Related Mail Proc Unit Costs}) + (\text{Delivery Unit Costs})] -$$

20
$$[(\text{Rate Category Worksharing Related Mail Proc Unit Costs}) + (\text{Delivery Unit Costs})]$$

21
$$= \text{Worksharing Related Savings}$$

22

23 **C. LETTERS AND CARDS RESULTS**

24 The total mail processing unit cost estimates and the worksharing related savings
25 estimates for First-Class Mail letters and cards and Standard Mail letters are displayed
26 below in Table 1.

27
28
29
30
31
32
33

³⁶ Docket No. R2000-1, USPS PRC-LR-12.

**TABLE 1:
LETTERS AND CARDS TOTAL MAIL PROCESSING UNIT COST ESTIMATES
AND WORKSHARING RELATED SAVINGS ESTIMATES**

RATE CATEGORY	TOTAL MAIL PROCESSING UNIT COST (CENTS)	WORK SHARING RELATED SAVINGS (CENTS)*	RATE CATEGORY BENCHMARK
FIRST-CLASS MAIL LETTERS			
Nonautomation Letters	13.737	(1.315)	Bulk Meter Mail Letters
Automation Mixed AADC Letters	4.827	5.101	Bulk Meter Mail Letters
Automation AADC Letters	4.053	6.084	Bulk Meter Mail Letters
Automation 3-Digit Letters	3.780	6.450	Bulk Meter Mail Letters
Automation 5-Digit Letters	2.842	7.637	Bulk Meter Mail Letters
Automation Carrier Route Letters	2.317	.938	Automation 5-Digit Letters (CSBCS/Manual Sites)
FIRST-CLASS MAIL CARDS			
Nonautomation Cards	6.549	---	---
Automation Mixed AADC Cards	2.668	3.226	Nonautomation Cards
Automation AADC Cards	2.197	3.921	Nonautomation Cards
Automation 3-Digit Cards	2.031	4.169	Nonautomation Cards
Automation 5-Digit Cards	1.461	4.996	Nonautomation Cards
Automation Carrier Route Cards	1.141	0.618	Automation 5-Digit Cards (CSBCS/Manual Sites)
STANDARD MAIL LETTERS			
Nonautomation Basic Letters	17.407	14.708	Nonautomation Basic Flats
Nonautomation 3/5-Digit Letters	15.030	0.662	Nonautomation Basic Letters
Automation Mixed AADC Letters	4.660	4.329	Nonautomation Basic Letters (Machinable Mixed AADC)
Automation AADC Letters	3.942	5.260	Nonautomation Basic Letters (Machinable AADC)
Automation 3-Digit Letters	3.690	4.937	Nonautomation 3/5 Letters (Machinable 3-Digit)
Automation 5-Digit Letters	2.819	6.065	Nonautomation 3/5 Letters (Machinable 5-Digit)

* The worksharing related savings include both mail processing and delivery savings. For details see Docket No. R2005-1, USPS LR-K-48, pages 1 and 57.

1 **VI. NONMACHINABLE SURCHARGE ADDITIONAL COST ESTIMATES**

2 In Docket No. R2001-1, the Postal Service proposed that the application of the
3 nonstandard surcharge be expanded and that the surcharge be renamed the
4 "nonmachinable" surcharge. The Commission subsequently agreed. Two cost studies
5 were provided by witness Miller to support that proposal.³⁷ Those cost studies have
6 been updated and are included in my cost models as well.³⁸
7

8 **VII. ADDRESS CORRECTION SERVICE**

9 *A. Introduction*

10 Address Correction Service provides mailers with changes of address
11 information for recipients who have moved. Address correction notifications are sent to
12 mailers through one of two methods: (1) manual Address Correction Service or (2)
13 Address Change Service (ACS). Manual Address Correction Service provides a
14 photocopy of the mail piece with the recipient's forwarding address on a USPS Form
15 3547 card for First-Class Mail and Standard Mail. The original mail piece is either
16 forwarded to the recipient's new address or treated as waste, depending on the
17 sender's preference and/or the class of mail. For Periodicals, the Postal Service
18 provides mailers with the front cover of the recipient's periodical, with the change-of-
19 address label affixed on the cover (known as Form 3579). The periodical is treated as
20 waste. These activities are conducted at a Computerized Forwarding System (CFS)
21 unit, normally housed within a Processing and Distribution Center. The Postal Service
22 charges a fee for each address correction notification provided to a mailer.

23 ACS is an electronic notification service providing changes of address and
24 reasons for non-delivery. Users of this service access the data electronically via a

³⁷ Docket No. R2001-1, USPS LR-J-60, pages 6, 45, and 59.

1 computer modem. The Postal Service charges a fee for each address correction and
2 reason for non-delivery provided to the customer. ACS mail pieces that are
3 undeliverable are called “ACS nixie mail pieces.”

4 *B. Methodology*

5 The cost methodology presented in USPS-LR-K-59 is unchanged from the
6 methodology in USPS-LR-J-69. I have updated the wage rates, piggyback factors, roll
7 forward data and volumes for the test year.

8 *C. Results*

9 The estimated test year costs resulting from the address correction service study
10 are shown in Table 1 below.

11 **Table 2. Test Year ACS Costs**

Manual Cost per Piece	\$0.5063
Automated Cost per Piece	\$0.147

12
13

14 **VIII. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY**

15

16 The material changes between my cost model, USPS-LR-K-48, *Test Year*
17 *Letter/Card Processing Cost Models (FCM, Standard Mail, and Nonmachinable*
18 *Surcharge)* and USPS-LR-K-110 *PRC Version of Test Year Letter/Card Processing*
19 *Cost Models (FCM, Standard Mail, and Nonmachinable Surcharge)* are volume
20 variabilities, CRA mail processing unit cost estimates, piggybacks factors and premium
21 pay factors.

22 The following chart compares the impact on the test year cost estimates
23 produced in LR-K-48 and the ones produced in the PRC version LR-K-110:

³⁸ Docket No. R2005-1, USPS LR-K-48, pages 38, 39, and 60.

TABLE 3:

Letters and Cards Total Mail Processing Unit Cost And Work Sharing Related Savings Estimates				
	USPS LR-K-48 Cost Results		PRC LR-K-110 Cost Results	
RATE CATEGORY	Total Mail Processing Unit costs	Work sharing Related Savings	Total Mail Processing Unit costs	Work sharing Related Savings
FIRST-CLASS MAIL LETTERS				
Nonautomation Letters	13.737	(1.315)	15.944	(1.563)
Automation Mixed AADC Letters	4.827	5.101	5.426	6.131
Automation AADC Letters	4.053	6.084	4.501	7.230
Automation 3-Digit Letters	3.780	6.450	4.168	7.641
Automation 5-Digit Letters	2.842	7.637	3.051	8.966
Automation Carrier Route	2.317	0.938	2.407	1.056
FIRST-CLASS MAIL CARDS				
Nonautomation Cards	6.549		7.382	
Automation Mixed AADC Cards	2.668	3.266	3.196	3.466
Automation AADC Cards	2.197	3.921	2.648	4.142
Automation 3-Digit Cards	2.031	4.169	2.450	4.397
Automation 5-Digit Cards	1.461	4.966	1.787	5.242
Automation Carrier Route Cards	1.141	0.618	1.406	0.645
STANDARD MAIL LETTERS				
Nonautomation Basic Letters	17.407	14.708	18.665	18.380
Nonautomation 3/5-Digit Letters	15.030	0.662	16.071	1.485
Automation Mixed AADC Letters	4.660	4.329	5.131	4.408
Automation AADC Letters	3.942	5.260	4.275	5.348
Automation 3-Digit Letters	3.690	4.937	3.967	5.152
Automation 5-Digit Letters	2.819	6.065	2.929	6.290
ADDRESS CORRECTION SERVICE				
	USPS LR-K-59 Cost Results		USPS LR-K-111 Cost Results	
Manual – Cost per Piece		\$0.506		\$0.521
Automated – Cost per Piece		\$0.147		\$0.156

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

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

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