

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 REVISIONS TO TESTIMONY OF WITNESS KAY (USPS-T-18) –  
ERRATA  
(May 31, 2005)

The Postal Service hereby gives notice of the filing of revisions to the testimony of witness Kay. The revisions are described on the attached page, and revised pages are also attached to this notice. The revisions relate to input changes from other witnesses, and correction of an error regarding PMPC costs. The effects of these changes on test year incremental costs are relatively minor, while base year costs were not affected at all.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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May 31, 2005

The following pages in USPS-T-18 have been revised on May 31, 2005:

Page 3, Lines 22 – 24,

change:

witness Smith (USPS-T-13) provides PMPC product specific cost inputs (USPS-LR-K-52); and witness Moser (USPS-T-23) provides test year final adjustment detail (USPS-LR-K-50).

to:

witness Smith (USPS-T-13) provides PMPC product specific cost inputs and piggyback ratios for final adjustments (USPS-LR-K-52); and witness Page (USPS-T-23) provides test year final adjustment detail (USPS-LR-K-59).

Page 17, Line 30

Change:

Total incremental cost for Priority Mail is 8.6% greater

to:

Total incremental cost for Priority Mail is 7.6% greater

Page 28, Table 3

change:

Cost Component	Priority Mail	Express Mail
C/S 3 Mail Processing	\$ 107.4	\$ 58.8
Admin Clerks	0	7.2
C/S 7 City Carriers	0	10.0
C/S 16 Advertising	23.9	12.1
C/S 18 Supplies & Services	8.8	0
Misc. Support	4.6	0
TOTAL	\$ 144.7	\$ 88.0

to:

Cost Component	Priority Mail	Express Mail
C/S 3 Mail Processing	\$ 82.5	\$ 58.8
Admin Clerks	0	7.2
C/S 7 City Carriers	0	10.0
C/S 16 Advertising	23.9	12.1
C/S 18 Supplies & Services	8.8	0
Misc. Support	4.6	0
TOTAL	119.8	\$ 88.0

Attachment A Tables on pages 27 to 31 have been completely revised.

1 **MATERIALS ASSOCIATED WITH THIS TESTIMONY**

2  
3 This incremental cost testimony is accompanied by supporting workpapers and  
4 library references. My workpapers include a detailed discussion of the procedures used  
5 to calculate incremental cost for each component. Printouts of the model used to  
6 estimate incremental costs for base year 2004 and test year 2006 are included in the  
7 workpapers.

8  
9 The Library References associated with this testimony are:

10  
11 USPS-LR-K-70 Rural Carrier Analysis  
12 USPS-LR-K-71 Rural Mail Count Data  
13 USPS-LR-K-72 Supporting Materials Relating to Incremental Cost Model  
14 (USPS-T-18)  
15

16 I develop incremental cost estimates using inputs I obtain from the following  
17 witnesses in this case: Witness Meehan (USPS-T-9) provides base year costs (USPS-  
18 LR-K-4) and product specific cost inputs (USPS-LR-K-57); witness Waterbury (USPS-T-  
19 10) provides test year costs and roll forward model inputs (USPS-LR-K-6); witness  
20 Thress (USPS-T-7) provides test year volumes (USPS-LR-K-66); witness Van-Ty-Smith  
21 (USPS-T-11) provides mail processing cost pool inputs and administrative clerk product  
22 specific cost inputs (USPS-LR-K-55); witness Smith (USPS-T-13) provides PMPC  
23 product specific cost inputs and piggyback ratios for final adjustments (USPS-LR-K-52);  
24 and witness Page (USPS-T-23) provides test year final adjustment detail (USPS-LR-K-  
25 59).

26  
27 The rural carrier analysis in USPS-LR-K-70 uses rural carrier cost system inputs  
28 from witness Harahush (USPS-T-5).

29  
30 I provide incremental cost estimates to rate witnesses Robinson (USPS-T-27)  
31 and Taufique (USPS-T-28). Rural carrier analysis outputs from USPS-LR-K-70 are

- 1 1) the amount of the driver in a subclass is not too large,
- 2 2) the volume variability is relatively high, and
- 3 3) product specific costs are not too great.

4  
5 This point is illustrated in Table 2 of Docket No. R2000-1, USPS-T-22. This table  
6 shows the difference between volume variable cost and volume-related incremental  
7 cost with various proportions of the driver and percentages of variability.

## 8 9 **B. Subclass Results**

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11 This section examines the results of the incremental cost analysis for individual  
12 subclasses. Average incremental cost for most subclasses is close to average volume  
13 variable cost. Following the discussion in the previous section, in those subclasses  
14 where there is a large difference, it will be due to one of these three reasons:

- 15
- 16
  - product specific costs associated with the particular subclass;
  - 17   - marginal cost changes significantly as the driver changes (i.e. a low volume  
18 variability); or
  - 19   - the proportion of the driver is large.

20  
21 This section discusses each of the subclasses where incremental cost differs from  
22 volume variable cost, and highlights the reason for the difference. Incremental costs in  
23 this section are for test year 2006 after rates, unless the discussion requires costs for  
24 cost pools that are aggregated into components for test year incremental cost  
25 calculations. In this case, base year 2004 costs are provided.

### 26 27 **1. Priority Mail and Express Mail**

28  
29 Table 1A shows the difference between volume variable and incremental cost for  
30 Priority Mail and Express Mail. Total incremental cost for Priority Mail is 7.6% greater  
31 than volume variable cost, while the incremental cost for Express Mail is 22.6% greater  
32 than volume cost. This difference is primarily due to product specific costs. The

1 following table shows the product specific costs for Priority Mail and Express Mail, by  
 2 cost component.

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TABLE 3.  
 PRODUCT SPECIFIC COSTS FOR PRIORITY AND EXPRESS MAIL (TY2006 AR),  
 IN MILLIONS (\$000,000)

Cost Component	Priority Mail	Express Mail
C/S 3 Mail Processing	\$ 82.5	\$ 58.8
Admin Clerks	0	7.2
C/S 7 City Carriers	0	10.0
C/S 16 Advertising	23.9	12.1
C/S 18 Supplies & Services	8.8	0
Misc. Support	4.6	0
TOTAL	119.8	\$ 88.0

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Mail processing (CS 3) contributes significant product specific costs to both Priority Mail and Express Mail. The costs of providing dedicated manual Priority and Express Mail operations are considered incremental to that subclass, because these operations would be discontinued if Priority or Express Mail were eliminated

There are also product specific advertising costs for both Priority Mail and Express Mail.

**2. First-Class Mail, Periodicals, Standard Mail, and Package Services**

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These four mail classes are discussed together because they have a common feature – none of the individual subclasses have a material amount of product specific costs.<sup>4</sup> Yet, the relationship between volume variable and incremental cost differs for the subclasses within these mail classes. This section will compare the difference

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<sup>4</sup> The total First-Class Mail has a small amount of product specific cost, but it is less than 0.1% of the difference between volume variable and incremental cost. There is also a small amount of product specific cost for advertising in total Standard Mail and Parcel Post, but it contributes little to the difference between incremental and volume variable cost.

TABLE 1A. BY 2004 AND TY 2006 VOLUME VARIABLE AND INCREMENTAL COST FOR SUBCLASSES AND CLASSES

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 Volume Variable Cost	BY 2004 Incremental Cost	TY 2006 (BR) Volume Variable Cost	TY 2006 (BR) Incremental Cost	TY 2006 (AR) Volume Variable Cost	TY 2006 (AR) Incremental Cost
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)
1	<b>FIRST-CLASS MAIL</b>						
2	SINGLE PIECE LETTERS	11,362,317	12,010,277	11,107,160	11,746,124	10,985,132	11,616,985
3	PRESORT LETTERS	4,509,071	4,679,533	4,721,785	4,903,111	4,636,167	4,814,882
4	TOTAL LETTERS	15,871,388	17,213,515	15,828,946	17,179,124	15,621,300	16,954,086
5	SINGLE PIECE CARDS	519,836	532,901	536,003	549,651	529,437	542,922
6	PRESORT CARDS	180,734	181,084	191,881	192,263	189,068	189,444
7	TOTAL CARDS	700,570	714,935	727,884	742,952	718,505	733,387
8	<b>TOTAL FIRST</b>	16,571,958	18,165,955	16,556,830	18,164,264	16,339,805	17,926,877
9	<b>PRIORITY MAIL</b>	2,816,222	3,071,098	2,946,894	3,165,602	2,804,198	3,017,859
10	<b>EXPRESS MAIL</b>	448,271	541,061	460,594	560,401	439,794	539,055
11	<b>MAILGRAMS</b>	300	301	262	263	263	263
12	<b>PERIODICALS:</b>						
13	WITHIN COUNTY	62,803	62,901	65,191	65,292	66,175	66,277
14	OUTSIDE COUNTY	2,174,189	2,202,226	2,054,221	2,081,239	2,046,363	2,073,270
15	<b>TOTAL PERIODICALS</b>	2,236,992	2,268,120	2,119,411	2,149,614	2,112,538	2,142,642
16	<b>STANDARD MAIL:</b>						
17	ENHANCED CARR RTE	2,187,027	2,264,547	2,560,555	2,650,916	2,481,440	2,568,970
18	REGULAR	8,216,025	8,516,962	9,188,994	9,528,233	9,119,093	9,455,646
19	<b>TOTAL STANDARD MAIL</b>	10,403,052	11,057,464	11,749,549	12,498,148	11,600,533	12,338,616
20	<b>PACKAGE SERVICES:</b>						
21	PARCEL POST	992,883	1,009,279	1,053,308	1,070,820	1,017,918	1,034,785
22	BOUND PRINTED MATTER	445,052	448,791	505,779	510,025	513,071	517,376
23	MEDIA MAIL	376,004	377,797	409,398	411,328	407,495	409,417
24	<b>TOTAL PACKAGE SERVICES</b>	1,813,939	1,869,941	1,968,484	2,029,505	1,938,484	1,998,537
25	<b>U.S. POSTAL SERVICE</b>	373,400	374,277	488,543		489,764	
26	<b>FREE MAIL</b>	39,628	39,655	43,751	43,779	43,829	43,858
27	<b>INTERNATIONAL MAIL</b>	1,306,160	1,371,035	1,440,530	1,509,079	1,416,017	1,484,535
28	<b>SPECIAL SERVICES:</b>						
29	REGISTRY	81,265	81,361	69,450	69,530	65,313	65,388
30	CERTIFIED	403,607	432,226	441,799	472,891	437,028	467,772
31	INSURANCE	93,994	94,484	69,284	69,787	68,315	68,815
32	COD	8,198	8,200	7,719	7,721	7,637	7,639
33	MONEY ORDERS	127,317	189,701	130,464	194,183	129,506	192,779
34	STAMPED CARDS	1,247	1,247	1,340	1,340	1,327	1,327
35	STAMPED ENVELOPES	11,619	11,619	12,778	12,778	12,789	12,789
36	SPECIAL HANDLING	2,454	2,454	2,526	2,526	2,507	2,507
37	POST OFFICE BOX	606,573	607,643	644,908	646,220	639,965	641,277
38	OTHER	211,294	217,289	175,995	181,848	176,312	182,051
39	<b>TOTAL SPECIAL SERVICES</b>	1,547,568	1,718,850	1,556,264	1,729,294	1,540,699	1,710,662
40	<b>CORRESPONDENCE</b>	16,572,258	18,166,359	22,847,058	24,907,579	22,524,506	24,557,065
41	<b>ADVERTISING</b>	10,848,104	11,547,084	11,142,946	11,902,583	11,035,920	11,786,612
42	<b>EXPEDITED</b>	4,633,380	5,074,074	18,028,976	18,672,293	17,720,288	18,352,315

TABLE 2A. BY 2004 AND TY 2006 VOLUME VARIABLE AND INCREMENTAL COST FOR SUBCLASS PAIRS

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 Volume Variable Cost	BY 2004 Incremental Cost	TY 2006 (BR) Volume Variable Cost	TY 2006 (BR) Incremental Cost	TY 2006 (AR) Volume Variable Cost	TY 2006 (AR) Incremental Cost
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)
1	PRIORITY & EXPRESS	3,264,493	3,653,395	3,407,488	3,769,610	3,243,992	3,598,972
2	PRIORITY & PARCEL POST	3,809,105	4,136,440	4,000,202	4,295,885	3,822,116	4,109,544
3	PRIORITY & BOUND PRINTED MATTER	3,261,274	3,546,355	3,452,672	3,704,146	3,317,269	3,563,092
4	PRIORITY & MEDIA MAIL	3,192,226	3,468,010	3,356,292	3,596,968	3,211,693	3,446,694
5	EXPRESS & PARCEL POST	1,441,154	1,548,852	1,513,902	1,630,086	1,457,712	1,572,827
6	EXPRESS & BOUND PRINTED MATTER	893,323	989,325	966,373	1,070,141	952,865	1,056,289
7	EXPRESS & MEDIA MAIL	824,275	918,617	869,992	971,696	847,289	948,564
8	PARCEL POST & BOUND PRINTED MATTER	1,437,935	1,473,610	1,559,086	1,598,019	1,530,989	1,569,203
9	PARCEL POST & MEDIA MAIL	1,368,887	1,396,608	1,462,706	1,492,351	1,425,413	1,454,221
10	BOUND PRINTED MATTER & MEDIA MAIL	821,056	831,556	915,176	926,860	920,566	932,331

TABLE 3A. COMPARISON OF BY 2004 INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 INCREMENTAL COST	BY 2004 PRC ATTRIBUTABLE COST	BY 2004 PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST	BY 2004 PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	12,010,277	11,953,724		9,322
3	PRESORT LETTERS	4,679,533	4,779,532		9,772
4	TOTAL LETTERS	17,213,515	16,733,256		19,094
5	SINGLE PIECE CARDS	532,901	536,940		521
6	PRESORT CARDS	181,084	188,566		600
7	TOTAL CARDS	714,935	725,507		1,121
8	<b>TOTAL FIRST</b>	18,165,955	17,458,762	20,215	20,215
9	<b>PRIORITY MAIL</b>	3,071,098	3,017,911	161,515	31,499
10	<b>EXPRESS MAIL</b>	541,061	503,044	81,474	17,374
11	<b>MAILGRAMS</b>	301	448		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	62,901	67,534		7
14	OUTSIDE COUNTY	2,202,226	2,323,322		77
15	<b>TOTAL PERIODICALS</b>	2,268,120	2,390,856	84	84
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,264,547	2,363,255		3,784
18	REGULAR	8,516,962	8,619,612		7,176
19	<b>TOTAL STANDARD MAIL</b>	11,057,464	10,982,867	10,960	10,960
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,009,279	1,040,929	454	454
22	BOUND PRINTED MATTER	448,791	475,918		
23	MEDIA MAIL	377,797	410,318		
24	<b>TOTAL PACKAGE SERVICES</b>	1,869,941	1,927,165	454	454
25	<b>U.S. POSTAL SERVICE</b>	374,277	-		
26	<b>FREE MAIL</b>	39,655	42,357		
27	<b>INTERNATIONAL MAIL</b>	1,371,035	1,395,556	62,758	31,013
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	81,361	53,007		
30	CERTIFIED	432,226	439,210	119	119
31	INSURANCE	94,484	102,190	287	287
32	COD	8,200	8,741		
33	MONEY ORDERS	189,701	155,039	3,579	3,579
34	STAMPED CARDS	1,247	1,249		
35	STAMPED ENVELOPES	11,619	12,529		
36	SPECIAL HANDLING	2,454	766		
37	POST OFFICE BOX	607,643	600,234	1,046	1,046
38	OTHER	217,289	348,083	1,808	1,808
39	<b>TOTAL SPECIAL SERVICES</b>	1,718,850	1,721,049	6,839	6,839

TABLE 4A. COMPARISON OF TY 2006 BEFORE RATES INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TY 2006 BR INCREMENTAL COST (1)	TY 2006 BR PRC ATTRIBUTABLE COST (2)	TY 2006 BR PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST (3)	TY 2006 BR PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC (4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	11,746,124	11,661,548		9,696
3	PRESORT LETTERS	4,903,111	4,995,962		10,165
4	TOTAL LETTERS	17,179,124	16,657,510		19,861
5	SINGLE PIECE CARDS	549,651	552,239		541
6	PRESORT CARDS	192,263	199,320		625
7	TOTAL CARDS	742,952	751,559		1,166
8	<b>TOTAL FIRST</b>	18,164,264	17,409,069	21,027	21,027
9	<b>PRIORITY MAIL</b>	3,165,602	3,158,427	119,774	37,246
10	<b>EXPRESS MAIL</b>	560,401	519,445	88,001	20,148
11	<b>MAILGRAMS</b>	263	388		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	65,292	70,005		9
14	OUTSIDE COUNTY	2,081,239	2,205,993		95
15	<b>TOTAL PERIODICALS</b>	2,149,614	2,275,999	103	103
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,650,916	2,757,681		4,648
18	REGULAR	9,528,233	9,595,014		8,815
19	<b>TOTAL STANDARD MAIL</b>	12,498,148	12,352,695	13,463	13,463
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,070,820	1,104,191	558	558
22	BOUND PRINTED MATTER	510,025	540,826		
23	MEDIA MAIL	411,328	446,220		
24	<b>TOTAL PACKAGE SERVICES</b>	2,029,505	2,091,238	558	558
25	<b>U.S. POSTAL SERVICE</b>		-		
26	<b>FREE MAIL</b>	43,779	46,671		
27	<b>INTERNATIONAL MAIL</b>	1,509,079	1,534,583	66,285	32,555
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	69,530	44,865		
30	CERTIFIED	472,891	480,527	146	146
31	INSURANCE	69,787	75,444	353	353
32	COD	7,721	8,231		
33	MONEY ORDERS	194,183	158,945	3,822	3,822
34	STAMPED CARDS	1,340	1,340		
35	STAMPED ENVELOPES	12,778	13,738		
36	SPECIAL HANDLING	2,526	809		
37	POST OFFICE BOX	646,220	638,592	1,285	1,285
38	OTHER	181,848	285,085	2,221	2,221
39	<b>TOTAL SPECIAL SERVICES</b>	1,729,294	1,707,577	7,826	7,826

TABLE 5A. COMPARISON OF TY 2006 AFTER RATES INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TY 2006 AR INCREMENTAL COST	TY 2006 AR PRC ATTRIBUTABLE COST	TY 2006 AR PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST	TY 2006 AR PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	11,616,985	11,540,520		9,696
3	PRESORT LETTERS	4,814,882	4,912,741		10,165
4	TOTAL LETTERS	16,954,086	16,453,262		19,861
5	SINGLE PIECE CARDS	542,922	545,817		541
6	PRESORT CARDS	189,444	196,546		625
7	TOTAL CARDS	733,387	742,362		1,166
8	<b>TOTAL FIRST</b>	17,926,877	17,195,624	21,027	21,027
9	<b>PRIORITY MAIL</b>	3,017,859	3,007,890	119,774	37,246
10	<b>EXPRESS MAIL</b>	539,055	497,236	88,007	20,156
11	<b>MAILGRAMS</b>	263	392		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	66,277	71,107		9
14	OUTSIDE COUNTY	2,073,270	2,197,992		95
15	<b>TOTAL PERIODICALS</b>	2,142,642	2,269,099	103	103
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,568,970	2,675,843		4,648
18	REGULAR	9,455,646	9,524,894		8,815
19	<b>TOTAL STANDARD MAIL</b>	12,338,616	12,200,737	13,463	13,463
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,034,785	1,067,635	558	558
22	BOUND PRINTED MATTER	517,376	549,370		
23	MEDIA MAIL	409,417	444,371		
24	<b>TOTAL PACKAGE SERVICES</b>	1,998,537	2,061,376	558	558
25	<b>U.S. POSTAL SERVICE</b>		-		
26	<b>FREE MAIL</b>	43,858	46,750		
27	<b>INTERNATIONAL MAIL</b>	1,484,535	1,509,235	66,292	32,558
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	65,388	42,380		
30	CERTIFIED	467,772	475,407	146	146
31	INSURANCE	68,815	74,402	353	353
32	COD	7,639	8,145		
33	MONEY ORDERS	192,779	157,827	3,822	3,822
34	STAMPED CARDS	1,327	1,327		
35	STAMPED ENVELOPES	12,789	13,752		
36	SPECIAL HANDLING	2,507	801		
37	POST OFFICE BOX	641,277	633,668	1,285	1,285
38	OTHER	182,051	290,371	2,221	2,221
39	<b>TOTAL SPECIAL SERVICES</b>	1,710,662	1,698,080	7,826	7,826

## 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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May 31, 2005