

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 UNITED STATES POSTAL SERVICE OF FILING OF
REVISED TESTIMONY OF WITNESS PAGE (USPS-T-23)[ERRATA]
(June 22, 2005)

The United States Postal Service hereby provides notice of the filing of the revised testimony of witness Page (USPS-T-23). The major revision is to insert a section on Periodicals Applications costs at the end of section V, on page 7. This section is copied from section XI of the withdrawn testimony of witness Moser. The section ends on page 8, and pushes the final section (renumbered section VII) of witness Page's testimony back about one page. Conforming changes are made to the Table of Contents (page i), the Purpose and Scope (page 1), and the Proposed Changes Relative to PRC Methodology sections (pages 8-11), including new references to the Periodicals Applications part (Attachment 9) of Library Reference K-59 on pages i, 1, and 8.

Witness Page's revised testimony (USPS-T-23) is attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -6187
June 22, 2005

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DIRECT TESTIMONY
OF
JAMES W. PAGE
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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Library Reference:

USPS-LR-K-59, Attachments 5, 9, 12B, and 14

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

2 The purpose of this testimony is to present estimated test year volume variable
3 costs for Express Mail, Stamped Envelopes, and Periodicals Applications, and to
4 develop Final Adjustments for the rollforward process.

5 The cost analyses discussed in my testimony are provided in Attachments 5, 9,
6 12B, and 14 of USPS-LR-K-59.

7 My test year cost estimates are provided to witnesses Robinson (USPS-T-27)
8 and Taufique (USPS-T-28). The Final Adjustments are used by witnesses Waterbury
9 (USPS-T-10), Kay (USPS-T-18), and Tayman (USPS-T-6).

10

11 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

12 I develop my cost estimates and final adjustments using inputs I obtain from the
13 following witnesses in this case. Witness Tayman (USPS-T-6) provides wage rates and
14 premium pay factors (USPS-LR-K-50); witness Van-Ty-Smith (USPS-T-11) provides
15 deaveraged wage rates (USPS-LR-K-55); witness Smith (USPS-T-13) provides
16 piggyback factors in his testimony; witness Taufique (USPS-T-28) provides test year
17 volumes in his Exhibit A; witness Miller (USPS-T-19 and 20) provides cost model inputs
18 for flats and parcels (USPS-LR-K-43 and USPS-LR-K-46); witness Mayes (USPS-T-25)
19 provides the transportation costs for Parcel Post (USPS-LR-K-89); witness Abdirahman
20 (USPS-T-21) provides cost model inputs for letters (USPS-LR-K-48); witness Wesner
21 (USPS-T-24) provides cost model inputs for Delivery Confirmation (USPS-LR-K-60);
22 and witness Kelley (USPS-T-16) provides rural and city delivery costs (USPS-LR-K-67).
23 The roll forward cost forecast was obtained from witness Waterbury (USPS-LR-K-7);

1 volume forecast data is from witness Thress (USPS-T-7; USPS-LR-K-66); witness
2 Meehan (USPS-T-9) provides base year cost segment data. I obtained First-Class Mail
3 and Standard Mail billing determinants from USPS-LR-K-77.

4 I have relied upon the following Docket No. R2001-1 library references and
5 testimony in preparing my cost analyses:

6 USPS LR-J-69, Cost Models Supporting USPS-T-42 (Abdirahman)

7

8 USPS LR-J-64, Models Supporting USPS-T-25 (Eggleston).

9

10 **III. EXPRESS MAIL RATE CATEGORY COST DIFFERENTIALS**

11

12 *A. Introduction*

13 In Docket No. R97-1, witness Nelson (Docket No. R97-1, USPS-T-19) developed
14 a methodology for Express Mail pricing based on delivery-related differences for the
15 following Express Mail rate categories: Post Office to Addressee, Post Office to Post
16 Office, and Custom Designed. He utilized data from carrier/messenger surveys to
17 support the new approach. The Commission adopted the new cost methodology and
18 implemented the proposal in PRC Op., R97-1, PRC-LR-5.

19 *B. Methodology*

20 My testimony updates witness Nelson's cost methodology (Docket No R97-1,
21 Exhibit USPS-19D) using test year piggyback factors and wage rates. See USPS-LR-
22 K-59 for the Express Mail Rate Category Cost Differentials cost study.

23 *C. Results*

24 Estimated test year cost differentials between Express Mail rate categories are
25 show below in Table 1. The delivery-related costs associated with different rate
26 categories are determined through the unit costs associated with different delivery

1 methods. The differences between the delivery-related costs for each rate category and
 2 the mean delivery-related cost per piece, \$1.047, provides the bases for establishing
 3 the “per piece” cost differentials across rate categories.

4 **Table 1: Cost Differentials Across Express Mail Categories**

Rate Category	Delivery-Related Cost Per Piece	Cost Per Piece Differential From Mean
PO-to-PO	\$0.081	(\$0.966)
PO-to-Addressee	\$1.061	\$.014
Custom Designed	\$0.142	(\$0.905)

5

6 **IV. STAMPED ENVELOPES**

7 *A. Introduction*

8 The Stamped Envelope cost model presented in this testimony consists of three
 9 components: (1) manufacturing costs, (2) distribution costs, and (3) selling costs. Each
 10 component is discussed briefly below.

11 *B. Methodology*

12 The methodology for the Stamped Envelopes cost study is unchanged from
 13 witness Abdirahman’s methodology in Docket No. R2001-1 (USPS-T-42). I have
 14 updated the CPI, mail processing costs per carton, costs per cubic foot, test year roll
 15 forward costs, base year CRA costs, SFSC customer service costs, and contract costs.

16 *C. Results*

17 Test year costs for plain Stamped Envelopes are below in Table 2.

18

19

Table 2: Test Year Stamped Envelope Costs

	SIZE	STYLE	BOX LOT OF 500 COST	SINGLES		SIZE	STYLE	BOX LOT OF 500 COST
PLAIN 10					PRINTED 9			
214100	10.00	Regular	\$8.60	\$0.0860	214300	9.00	Regular	\$17.14
215100	10.00	Regular	\$8.60	\$0.0860	215400	9.00	Window	\$18.86
215500	10.00	Regular	\$8.60	\$0.0860	PRINTED 6 3/4			
218300	10.00	Regular	\$8.57	\$0.0860	262500	6.75	Regular	\$24.37
214200	10.00	Window	\$9.68	\$0.0882	262700	6.75	Regular	\$13.17
215200	10.00	Window	\$9.68	\$0.0882	264100	6.75	Regular	\$13.17
PLAIN 9					265500	6.75	Regular	\$13.17
214300	9.00	Regular	\$11.13	\$0.0911	262800	6.75	Window	\$14.52
215400	9.00	Window	\$12.85	\$0.0945	264200	6.75	Window	\$14.33
PLAIN 6 3/4					PRINTED HOUSEHOLD 10			
264100	6.75	Regular	\$6.80	\$0.0824	210100	10.00	Regular	\$2.57
265500	6.75	Regular	\$6.80	\$0.0824	210500	10.00	Regular	\$2.58
264200	6.75	Window	\$7.96	\$0.0848	210600	10.00	Window	\$2.69
PRINTED 10					PRINTED HOUSEHOLD 9			
214100	10.00	Regular	\$14.61		210800	9.00	Regular	\$2.83
215100	10.00	Regular	\$14.61		210900	9.00	Window	\$3.01
215500	10.00	Regular	\$14.61		PRINTED HOUSEHOLD 6 3/4			
216400	10.00	Regular	\$14.61		260100	6.75	Regular	\$2.44
218300	10.00	Regular	\$14.58		262500	6.75	Regular	\$2.44
214200	10.00	Window	\$15.69		264100	6.75	Regular	\$1.31
215200	10.00	Window	\$15.68		262600	6.75	Window	\$2.55
					262700	6.75	Regular	\$1.31

1 **V. FINAL ADJUSTMENTS**

2 *A. Introduction*

3 The purpose of this section is to calculate roll forward final adjustments for FY
4 2005, the test year before rates (TYBR), and the test year after rates (TYAR). These
5 adjustments are used by witness Waterbury (UPSP-T-10) to adjust costs by subclass in
6 the roll-forward process. Witness Kay (USPS-T-18) uses the final adjustments by rate
7 category and cost component in her development of incremental costs. Witness

1 Tayman (USPS-T-6) adjusts Rollforward expense estimates for final adjustments in
2 order to produce total expenses, the Test Year revenue requirement, and income
3 statements for FY 05 and the Test Year (see Exhibits 6A and 6N).

4 Final adjustments are needed because the roll forward process does not capture
5 changes in the mix of mail below the CRA/Rollforward categories. For some classes of
6 mail, this is a valid assumption. However, for other classes of mail, the mail mix
7 changes in ways that significantly affects costs. If costs were not adjusted, the test year
8 costs would be overstated. I have also incorporated final adjustments to reflect the
9 impact of Negotiated Service Agreements (NSAs) with Bank One and Discover, the
10 impacts of which were not already in the base year costs. The final adjustment for
11 Delivery Confirmation reflects the increased domination of the Other Special Services
12 category by the Delivery Confirmation product. Without a final adjustment to costs
13 mirroring the decline in average revenue for the Other Special Services category, the
14 ratio of revenue to cost for the aggregate category would be skewed. An additional set
15 of final adjustments is made to shift a portion of the costs of providing Delivery
16 Confirmation service to the Priority Mail and Parcel Select subclasses, similar to the
17 adjustment made by witness Kiefer in Docket No. R2001-1 (USPS-LR-J-120).

18 *B. Methodology*

19 The steps involved with calculating final adjustments are described below. In
20 order to simplify the explanation, the steps will describe how the Parcel Post mail
21 processing FY 2005 final adjustment is calculated.

22

1 **Step 1.** Calculate the average mail processing unit cost used by the roll forward model
2 to calculate the Parcel Post mail processing costs in FY2005. This is estimated by
3 dividing total mail processing Parcel Post costs by total Parcel Post volume, using the
4 base year volume mix.

5
6 **Step 2.** Calculate the average mail processing unit cost for Parcel Post in FY2005
7 assuming the FY 2005 Parcel Post volume mix. This unit cost is estimated by
8 multiplying the FY 2005 mail processing unit cost for each rate category by its
9 respective FY 2005 volume, and then dividing the sum by total Parcel Post FY 2005
10 volume.

11
12 **Step 3.** Subtract the unit cost in Step 1 from the unit cost in Step 2. This is the unit
13 cost differential between the average unit cost assuming FY 2005 volume mix and the
14 average unit cost assuming base year volume mix.

15
16 **Step 4.** Multiply the cost differential calculated in Step 3 by Parcel Post volume in FY
17 2005. This is the mail processing Parcel Post adjustment for FY 2005. If this number is
18 positive, this is the amount to be added to the roll-forward cost. If this number is
19 negative, this is the amount to be subtracted from the roll-forward cost.

20 For the NSA adjustment, I have relied upon the methodological approaches
21 presented in Negotiated Service Agreement litigation for the Bank One and Discover
22 cases; however my estimates are not identical to the ones in the NSA cases because I
23 am using cost estimates developed in the context of this omnibus case.

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C. Results

Table 3: Total Final Adjustments, LR-K-59, Attachment 14a

Mail Class	2005	BR 2006	AR 2006
First-Class Presort	(35,017)	(67,035)	(113,494)
First-Class Presort Cards	(2,175)	(4,608)	(4,600)
Standard Regular	(139,564)	(249,309)	(253,734)
Parcel Post	8,233	65,883	78,301
Priority Mail		23,959	23,013
Other Special Services			
Delivery Confirmation Cost Shift		(53,200)	(51,101)
Total For All Classes Assigned to Cost Segment	(168,523)	(284,311)	(321,615)
Other Special Services			
Mail Mix Change	(12,734)	(30,839)	(24,023)
Total For All Classes	(181,257)	(315,150)	(345,639)

VI. PERIODICALS APPLICATIONS

A. Introduction

Before a publication will be considered for Periodicals authorization, the publisher at the post office must file a Periodicals Application for Original Entry (Form 3501) where the publisher is located. Upon receipt, the postmaster or other postal employee visits the publisher's office to verify information provided in the application. The post office then sends the application to the district office for initial review and processing. Following an initial review, the district office forwards the application to a Pricing and

1 Classification Center (PCC) for a detailed review and coordination with the Library of
2 Congress. A PCC analyst issues an approval or denial based on the above analyses.

3 *B. Methodology*

4 The cost methodology for Periodicals Applications is similar to the Docket No.
5 R2001-1 methodology (see Docket No. R2001-1, USPS LR-J-69), with one exception;
6 piggyback factors have been excluded in the past. This has been corrected in this
7 testimony. I have included piggyback factors where direct labor is used in a postal
8 facility. Wage rates and the measure of inflation, CPI, have been updated. See USPS-
9 LR-K-59 for the Periodicals Application cost model.

10 *C. Results*

11 Estimated test year costs for Periodicals Applications are shown below in
12 Table 4.

Table 4: Test Year Periodicals Application Costs

Periodicals Application Type	Total Test Year Cost per Application
Original Entry	\$393.03
Reentry	\$60.03
Additional Entry	\$43.80
News Agents	\$30.27

13

14 **VII. Proposed Changes Relative to PRC Methodology**

15 The material changes between my cost models, Attachments 5, 9, 12B, and 14 in
16 USPS-LR-K-59, and the PRC version, Attachments 5, 9, 12B, and 14 in USPS-LR-K-
17 111, are volume variabilities, piggybacks factors, and the roll-forward, and city and rural
18 delivery costs.

19 The following chart compares the test year cost estimates produced in USPS-LR-
20 K-59 with the ones produced in the PRC version (USPS-LR-K-111).

1

Table 5: Test Year Cost Estimates

	LR-K-59	LR-K-111
Stamped Envelopes, see below		
Express Mail Costs		
PO-to-PO	\$0.08	\$0.09
PO-to-Addressee	\$1.06	\$1.07
Custom Designed	\$0.14	\$0.15
Periodicals Applications		
Original Entry Cost	\$393.03	\$392.87
Additional Entry Cost	\$60.03	\$59.94
Reentry Cost	\$43.80	\$43.73
Registration for News Agents	\$30.27	\$30.24

2

3 The following table presents PRC Final Adjustment that can be compared to the
4 Postal Service Final Adjustments shown in Table 3.

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**Table 6: PRC Version Total Final Adjustments
LR-K-111, Attachment 14a**

Mail Class	2005	BR 2006	AR 2006
First-Class Presort	(35,420)	(65,459)	(112,142)
First-Class Presort Cards	(2,311)	(4,907)	(4,935)
Standard Regular	(161,760)	(287,261)	(293,668)
Parcel Post	8,716	69,107	82,245
Priority Mail		24,888	23,906
Other Special Services			
Delivery Confirmation Cost Shift		(55,264)	(53,084)
Total For All Classes Assigned to Cost Segment	(190,774)	(318,896)	(357,678)
Other Special Services			
Mail Mix Change	(37,994)	(86,443)	(69,304)
Total For All Classes	(228,768)	(405,339)	(426,982)

8

1 The PRC Stamped Envelope costs shown in Table 7 can be compared to the
 2 Postal Service Stamped Envelope costs shown in Table 2.

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Table 7: Stamped Envelopes, PRC Version

	SIZE	STYLE	BOX LOT OF 500 COST	SINGLES		SIZE	STYLE	BOX LOT OF 500 COST
PLAIN 10					PRINTED 9			
214100	10.00	Regular	\$8.41	\$0.0857	214300	9.00	Regular	\$17.14
215100	10.00	Regular	\$8.41	\$0.0857	215400	9.00	Window	\$18.86
215500	10.00	Regular	\$8.41	\$0.0857	PRINTED 6 3/4			
218300	10.00	Regular	\$8.38	\$0.0856	262500	6.75	Regular	\$24.37
214200	10.00	Window	\$9.49	\$0.0878	262700	6.75	Regular	\$13.17
215200	10.00	Window	\$9.49	\$0.0878	264100	6.75	Regular	\$13.17
PLAIN 9					265500	6.75	Regular	\$13.17
214300	9.00	Regular	\$10.94	\$0.0907	262800	6.75	Window	\$14.52
215400	9.00	Window	\$12.66	\$0.0942	264200	6.75	Window	\$14.33
PLAIN 6 3/4					PRINTED HOUSEHOLD 10			
264100	6.75	Regular	\$6.68	\$0.0822	210100	10.00	Regular	\$2.57
265500	6.75	Regular	\$6.68	\$0.0822	210500	10.00	Regular	\$2.58
264200	6.75	Window	\$7.84	\$0.0845	210600	10.00	Window	\$2.69
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					262700	6.75	Regular	\$1.31

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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.