

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

POSTAL RATE AND FEE CHANGES, 2006 :

Docket No. R2006-1

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

TABLE OF CONTENTS

1
2
3 AUTOBIOGRAPHICAL SKETCH iii
4
5 I. PURPOSE AND SCOPE OF TESTIMONY 1
6
7 II. GUIDE TO TESTIMONY 2
8
9 A. CARDS AND LETTERS 2
10
11 B. BUSINESS REPLY MAIL 3
12
13 III. LETTER / CARD TOTAL MAIL PROCESSING UNIT COST ESTIMATES 5
14
15 A. TEST YEAR LETTER / CARD MAIL PROCESSING TECHNOLOGIES 5
16
17 B. COST MODEL CHANGES 5
18
19 C. COST METHODOLOGY 7
20
21 1. CRA MAIL PROCESSING UNIT COSTS 7
22
23 2. MODEL-BASED MAIL PROCESSING UNIT COSTS 8
24
25 a. MAIL FLOW SPREADSHEET 9
26
27 i. ENTRY PROFILE 9
28 ii. ACCEPT AND UPGRADE RATES 9
29 iii. MAIL FLOW DENSITIES 10
30 iv. MISCELLANEOUS FACTORS 10
31
32 b. COST SPREADSHEET 12
33
34 i. MARGINAL (VOLUME VARIABLE) PRODUCTIVITIES .. 13
35 ii. WAGE RATES 13
36 iii. "PIGGYBACK" (INDIRECT COST) FACTORS 13
37 iv. PREMIUM PAY FACTORS 13
38 v. BUNDLE SORTING COSTS 14
39
40 c. CRA ADJUSTMENTS 14

1 IV. BUSINESS REPLY MAIL COST ESTIMATES..... 16
2
3 A. QUALIFIED BUSINESS REPLY MAIL COST AVOIDANCE ESTIMATE 16
4
5 B. BUSINESS REPLY MAIL FEE ADDITIONAL COST ESTIMATES 17
6
7 1. ANNUAL PERMIT FEE 18
8 2. ANNUAL ACCOUNTING FEE 18
9 3. QUALIFIED BUSINESS REPLY MAIL QUARTERLY FEE 19
10 4. NON-LETTER SIZE BUSINESS REPLY MAIL MONTHLY FEE..... 19
11 5. HIGH VOLUME QBRM PER-PIECE FEE 19
12 6. BASIC QUALIFIED BUSINESS REPLY MAIL PER-PIECE FEE 20
13 7. HIGH VOLUME BUSINESS REPLY MAIL PER-PIECE FEE 20
14 8. BASIC BUSINESS REPLY MAIL PER-PIECE FEE 20
15 9. NON-LETTER SIZE BUSINESS REPLY MAIL PER-PIECE FEE 21
16
17 V. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY 22
18

19 LIST OF TABLES

20
21 TABLE 1: USPS LETTERS AND CARDS
22 TOTAL MAIL PROCESSING UNIT COST ESTIMATES 15
23
24 TABLE 2: USPS BRM COST ESTIMATES 21
25
26 TABLE 3: PRC LETTERS AND CARDS
27 TOTAL MAIL PROCESSING UNIT COST ESTIMATES 23
28
29 TABLE 4: PRC BRM COST ESTIMATES 24
30

31 ASSOCIATED LIBRARY REFERENCES

32
33 USPS-LR-L-48: Cards and Letters Mail Processing Cost Models

34
35 This library reference contains the cost models that are used to develop test year
36 2008 volume variable mail processing unit cost estimates by rate category for
37 First-Class Mail presort cards and letters and Standard Mail Regular letters. In
38 Docket No. R2005-1, the cards and letters cost models were contained in USPS-
39 LR-K-48 and were described in testimony USPS-T-21.
40

41 USPS-LR-L-69: Business Reply Mail Cost Models

42
43 This library reference contains the Qualified Business Reply Mail (QBRM) cost
44 avoidance estimate and the cost studies supporting Business Reply Mail (BRM)
45 fees. In Docket No. R2005-1, the BRM cost models were contained in USPS-
46 LR-K-69 and were described in testimony USPS-T-22.

- 1 concentration in International Economics in 1996 from George Mason University in
- 2 Fairfax, Virginia.

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

2 This testimony describes the development of the Test Year (TY) 2008 First-Class
3 Mail presort cards and letters and Standard Mail Regular letters mail processing unit
4 cost estimates by rate category. This testimony also describes the development of the
5 TY 2008 Qualified Business Reply Mail (QBRM) cost avoidance estimate and the
6 additional cost estimates associated with the various Business Reply Mail (BRM) fees.

1 **II. GUIDE TO TESTIMONY**

2 In the instant proceeding, I am sponsoring USPS-LR-L-48 and USPS-LR-L-69.

3 The cards and letters cost models are contained in USPS-LR-L-48. The BRM cost
4 models are contained in USPS-LR-L-69.

5 **A. CARDS AND LETTERS**

6 I have developed my test year cards and letters mail processing unit cost
7 estimates using inputs I obtained from other witnesses and sources in this case.

8 Witness Loutsch (USPS-T-6) provides wage rates (USPS-LR-L-50); witness Smith
9 (USPS-T-13) provides piggyback factors, Remote Computer Read (RCR) costs (USPS-
10 LR-L-52) and CRA mail processing unit cost estimates by shape (USPS-LR-L-53);
11 witness Van-Ty-Smith (USPS-T-11) provides volume variability factors, premium pay
12 factors, and de-averaged wage rates (USPS-LR-L-55); Witness Loetscher (USPS-T-
13 28) provides the First-Class Mail nonautomation presort cards and letters mail
14 characteristics data (USPS-LR-L-32) and the Standard Mail Regular nonautomation
15 letters mail characteristics data (USPS-LR-L-92); witness McCrery (USPS-T-42)
16 provides the RCR finalization rate and the Remote Bar Code System (RBCS) leakage
17 factor; and witness Bozzo (USPS-T-12) provides MODS productivity data (USPS-LR-L-
18 56). I also use base year mail volumes, USPS-LR-L-77.

19 In developing the cards and letters cost estimates, I have also relied upon data
20 from previous rate cases. The Output Sub System (OSS) and Bar Code Sorter (BCS)
21 accept rates are from Docket No. R2005-1, USPS-LR-K-68; the Input Sub System (ISS)
22 accept and upgrade rates are from Docket No. R2001-1, USPS-LR-J-60; the mail flow
23 density tables are from Docket No. R2000-1, USPS-T-24, Workpaper 1; the letters
24 bundle sorting data are from Docket No. MC95-1, USPS-T-10, Attachments B, F, and I

1 and Workpaper VII; the carrier route plant finalization rate is from Docket No. R2000-1,
2 USPS-T-24, Attachment A; and the post office box destination factor is from Docket No.
3 MC95-1, USPS-T-10, Attachment I.

4 My First-Class Mail presort cards and letters and Standard Mail Regular letters
5 mail processing unit cost estimates by rate category have been provided to witnesses
6 Taufique (USPS-T-32) and Kiefer (USPS-T-36), respectively. These cost estimates
7 have also been provided to witness Page (USPS-T-23) for purposes of calculating final
8 adjustments.

9 **B. BUSINESS REPLY MAIL**

10 I have developed my test year BRM cost estimates using inputs I obtained from
11 other witnesses and sources in this case. Witness Loutsch (USPS-T-6) provides wage
12 rates (USPS-LR-L-50); witness Smith (USPS-T-13) provides piggyback factors and
13 RCR costs (USPS-LR-L-52); witness Van-Ty-Smith (USPS-T-11) provides volume
14 variability factors, premium pay factors, and de-averaged wage rates (USPS-LR-L-55);
15 Witness Loetscher (USPS-T-28) provides the BRM practices study results (USPS-LR-L-
16 34); witness McCrery (USPS-T-42) provides the RCR finalization rate and the RBCS
17 leakage factor; and witness Bozzo (USPS-T-12) provides productivity data (USPS-LR-
18 L-56). I have also obtained the letter-related operations specific piggyback factors and
19 volume variability factors data from USPS-LR-L-48.

20 In developing the BRM cost estimates, I have also relied upon data from previous
21 rate cases. The ISS and OSS accept and upgrade rates are from Docket No. R97-1,
22 USPS-LR-H-130; the BCS accept rate is from Docket No. R2005-1, USPS-LR-K-68; the
23 Cost and Revenue Analysis (CRA) proportional adjustment factor is from Docket No.
24 R2005-1, USPS-LR-K-48; and other BRM-related productivity data are from Docket No.

1 R97-1, USPS-T-27, Docket No. R2000-1, USPS-T-29, and Docket No. R2001-1, USPS-
2 LR-J-60.

3 My BRM cost estimates have been provided to witnesses Berkeley (USPS-T-39)
4 and Taufique (USPS-T-32).

1 **III. LETTER / CARD TOTAL MAIL PROCESSING UNIT COST ESTIMATES**

2 This section of my testimony describes the letter and cards mail processing unit
3 cost estimates by rate category, which were last calculated in Docket No. R2005-1,
4 USPS-LR-K-48. These cost estimates are presented in Table 1 below.

5 **A. TEST YEAR LETTER / CARD MAIL PROCESSING TECHNOLOGIES**

6 In test year 2008, the technologies relied upon in cards and letters piece and
7 bundle distribution operations will not have changed substantially from those presented
8 in Docket No. R2005-1. As has been the case over the past several years, the RCR
9 acceptance rates continue to improve over time.

10 **B. COST MODEL CHANGES**

11 In my response to Docket No. R2005-1, Presiding Officer's Information Request
12 (POIR) No. 1, Question 1(a), I discussed the issues that were affecting the veracity of
13 nonautomation presort cards and letters cost estimates as developed by reference to
14 the CRA-based auto and nonauto cost pools. Under current mail preparation standards,
15 a percentage of letters accepted at the automation presort letters rates may have 9-digit
16 barcodes, 5-digit barcodes, or no barcodes at all. As I noted in my response to that
17 POIR, classifying tallies as automation presort letters based solely on the presence of a
18 specific barcode may therefore not be valid. Nonautomation presort letters are also
19 problematic. If a given automation mailing fails to meet the standard described above at
20 the time of acceptance, the mailer may choose to be assessed the nonautomation
21 presort letters rates, rather than rework (and/or apply corrective markings to) the mail.
22 This means that nonautomation presort letters mailings could contain a significant
23 number of mail pieces with legitimate 11-digit barcodes. Based solely on the physical
24 examination of mail piece characteristics (e.g., barcode), it is not always possible for

1 data collectors to determine whether the revenue of a given mail piece, and the piece
2 itself, was recorded at nonautomation rates or automation rates.

3 I also stated that an alternative cost methodology to the one employed in
4 Dockets No. R2001-1 and R2005-1 would be to combine the separate nonautomation
5 and automation costs into one set of cost by shape estimates, then subsequently use
6 the letter models to estimate the auto and nonauto unit costs. That change has been
7 implemented in this docket for First-Class Mail nonautomation presort cards and letters
8 and Standard Mail Regular letters. Separate nonautomation and automation cost by
9 shape estimates are no longer provided to me.

10 As a result of proposed changes in the approach used to develop the
11 worksharing rates for First-Class Mail, Bulk Metered Mail (BMM) unit costs are no
12 longer used in the First-Class Mail letters cost analysis. All analysis of workshare-
13 related activities are constrained within the self-contained CRA set of costs associated
14 with Presort Letters. Because it is no longer necessary to create a separate estimate of
15 BMM unit costs and develop comparable cost pools isolating the workshare-related
16 costs within the Presort Letters costs, the CRA cost pools within Presort Letters are no
17 longer classified into the three classifications: proportional, workshare related and non-
18 workshare related as was previously done in R2005-1. Each cost pool is now classified
19 as being proportional or fixed, with the distinction being only to separate the costs for
20 which my model develops estimates (the proportional costs) from the costs which are
21 beyond the scope of my model (fixed costs).

22 Currently, there are two Standard Mail Regular nonautomation presort letters rate
23 categories: basic and 3/5-digit presort. In the instant proceeding, the Postal Service is
24 proposing that these two rate categories be de-averaged into four rate categories:

1 nonautomation mixed Area Distribution Center (ADC) / mixed Automated Area
2 Distribution Center (AADC) presort letters, nonautomation ADC / AADC presort letters,
3 nonautomation 3-digit presort letters, and nonautomation 5-digit presort letters. The
4 Standard Mail letters cost model has therefore been revised to support this proposal.

5 **C. COST METHODOLOGY**

6 In past dockets, the Commission has employed a “hybrid” cost methodology that
7 relies on both CRA mail processing unit costs and model-based mail processing unit
8 costs to develop mail processing unit cost estimates by rate category.¹ I rely on a hybrid
9 cost methodology in this docket as well. The total mail processing unit cost estimates
10 are summarized below in Table 1 on page 16.

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

12 My analyses begin with shape-specific CRA mail processing unit cost estimates
13 developed from the Presort Letters and Sealed Parcels CRA category and the Standard
14 Regular CRA category.² The CRA mail processing unit costs for the First-Class Mail
15 Presort Letters and Standard Regular letters are each subdivided into 63 cost pools.
16 Each cost pool represents a specific mail processing task performed at Bulk Mail
17 Centers (BMC), Management Operating Data System (MODS) plants, or non-MODS
18 plants. The costs are “mapped” to each cost pool as described in USPS-LR-L-55.

19 Each cost pool is classified as being proportional or fixed.³ The “proportional”
20 cost pools contain the costs for tasks that I have actually modeled. The bar code sorter
21 (“BCS”) cost pool is an example of a proportional cost pool. The “fixed” cost pools

¹ PRC Op., MC95-1 at paragraph 4221.

² Docket No. R2006-1, USPS- LR-L-53.

³ Docket No. R2006-1, USPS- LR-L-48.

1 represent tasks that have not been modeled. The Express Mail (“EXPRESS”) cost pool
2 is an example of a fixed cost pool.

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

4 Cost models have been developed for each rate category. For example, I have
5 updated cost models for the First-Class Mail letters automation mixed AADC, AADC, 3-
6 digit, 5-digit, and carrier route presort rate categories. These models are then used to
7 de-average the CRA mail processing unit costs for “First-Class Mail Presort Letters” into
8 cost estimates by rate category.

9 Each of these cost models consists of two spreadsheets: a mail flow spreadsheet
10 and a cost spreadsheet.⁴ These spreadsheets are used to calculate model costs.

11 CRA adjustment factors are developed for First-Class Mail presort cards and letters and
12 Standard Mail Regular letters. A weighted model cost for all the rate categories being
13 de-averaged is then computed using base year mail volumes and is tied back to the
14 CRA using adjustment factors. These factors are then applied to the model costs in
15 order to estimate the total mail processing unit costs by rate category.

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.

1 **a. MAIL FLOW SPREADSHEET**

2 Each spreadsheet “flows” 10,000 mail pieces through the mail processing
3 network. This network is represented by a series of boxes (operations) and arrows on
4 each spreadsheet that “flow” mail to other operations using the various inputs described
5 below. Each box is separated into two parts. The right-hand section represents the
6 actual number of physical pieces processed in a given operation. The left-hand section
7 is equal or higher in value and reflects the fact that some pieces are processed through
8 a given operation more than once. The latter values are ultimately accessed by the cost
9 sheet and used to calculate model costs.

10 **i. ENTRY PROFILE**

11 The 10,000 pieces are initially input into the “PCS IN” box at the top of each mail
12 flow spreadsheet. These pieces are distributed to the appropriate operation(s) in the
13 “ENTRY POINTS” section based on their presort level. All spreadsheets requiring
14 volume data are linked to the mail characteristics studies conducted for Docket No.
15 R2006-1.⁵ Each operation then pulls the “ENTRY POINTS” mail volumes directly into
16 the appropriate cell.

17 **ii. ACCEPT AND UPGRADE RATES**

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

⁵ Docket No. R2006-1, USPS-LR-L-32 and USPS-LR-L-92.

1 The ISS finalization rates are from Docket No. R2001-1, USPS-LR-J-60. The
2 accept and upgrade rates for the OSS and the automation accept rates for the BCS
3 operations are taken from Docket No. R2005-1, USPS-LR-K-68.

4 **iii. MAIL FLOW DENSITIES**

5 A “sort plan” is a software program which designates the bin on mail processing
6 equipment to which each mail piece is sorted based on ZIP Code information. The term
7 “density” refers to the percentage of mail that is sorted to a given bin using a given sort
8 plan. In my mail flow spreadsheets, density percentages are used to flow mail to
9 succeeding operations. The same density percentages from Docket No. R2005-1 were
10 used to flow mail to succeeding operations.

11 **iv. MISCELLANEOUS FACTORS**

12 Several miscellaneous factors are also used to flow mail through the models.
13 These factors include: the RCR finalization rate, the RBCS leakage rate, the automated
14 incoming secondary factors, the automation carrier route Carrier Sequence Bar Code
15 Sorter (CSBCS) factor, the Carrier Route finalization rate for plants, and the Post Office
16 Box destination factor.

17 **RCR Finalization Rate:** After an image has been lifted by the ISS, it is
18 processed through the RCR image recognition software. The RCR software can resolve
19 a certain percentage of the images that it receives. That percentage is referred to as the
20 RCR finalization rate. In this docket, the RCR finalization rate is 78.39 percent, as
21 described in the testimony of witness McCrery (USPS-T-42). Images that are not
22 finalized by RCR are transmitted to the Remote Encoding Centers (REC).

23 **RBCS Leakage Rate:** “Leakage” refers to the situation where a mail piece is
24 finalized by the RCR system or the REC, but the result is never obtained from the

1 Decision Storage Unit (DSU). In this docket, the leakage rate of 8.26 percent is used,
2 as described in the testimony of witness McCrery (USPS-T-42).

3 **Automated Incoming Secondary Factors:** Mail can be finalized in a variety of
4 incoming secondary operations (e.g., delivery point sequence) based on the depth-of-
5 distribution commitment for a given ZIP Code. The percentage of mail processed in
6 each type of incoming secondary operation is calculated using Fiscal Year (FY) 2005
7 data from the Finalization on Automation Secondary Tracking (FAST) system on the
8 Corporate Information System (CIS) database.

9 **Automation Carrier Route CSBCS Factor:** The automation carrier route rate
10 category can only be used for mail that destines at ZIP Codes which use the CSBCS
11 to finalize their mail in Delivery Point Sequence (DPS), or ZIP Codes for which an
12 automated incoming secondary operation does not sort the mail beyond the carrier
13 route level. Therefore, it is necessary to estimate the volume of mail that destines at
14 CSBCS and manual facilities. This factor was calculated by dividing the 3-Pass DPS
15 (CSBCS) percentage by the sum of the 3-Pass DPS, Carrier Route, and Delivery Unit
16 percentages. The FAST data were once again used for this purpose.

17 **Carrier Route Finalization Rate For Plants:** This rate refers to the percentage
18 of manual incoming secondary mail that is finalized to the carrier route level at plants.
19 Because the incoming secondary productivity for plants is lower than the corresponding
20 productivity for Delivery Units (DU), it is necessary to separate this mail from the mail
21 that is finalized to the carrier route level at DUs. The carrier route finalization rate used
22 in this docket is the same as that used in Docket No. R2005-1.

23 **Post Office Box Destination Factor:** After being finalized in either an
24 automation incoming secondary or manual incoming secondary operation, mail for

1 post office boxes is then routed to a box section where a clerk sorts the mail into the
2 appropriate boxes. The factor that is used to estimate box section mail volumes
3 was taken from coverage factor calculations and is the same as used in Docket No.
4 R2005-1.

5 The data inputs described above are used in my mail flow spreadsheets to “flow”
6 10,000 mail pieces through a modeled representation of the postal mail processing
7 network. After the 10,000 mail pieces are finalized in either an automation or manual
8 incoming secondary operation, the finalized mail volumes are totaled for each of those
9 operations and the sum is entered in the “PCS OUT” box at the top of the page. This
10 calculation is performed to ensure that all 10,000 pieces that are entered into the model
11 are also processed through the model.

12 **b. COST SPREADSHEET**

13 Each cost spreadsheet accesses the mail volumes from each operation in the
14 corresponding mail flow spreadsheet.⁶ This volume information, in conjunction with the
15 other data inputs described below, is used to calculate a mail processing unit cost
16 estimate for the mail volumes flowing through each operation. Each operation cost is
17 then divided by the "PCS OUT" mail volumes in order to determine the weighted
18 operation cost. The sum of these weighted operation costs is the model cost.

⁶ Docket No. R2006-1, USPS LR-L-48.

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

2 For my cost model spreadsheets, productivity values by operation have been
3 calculated using Fiscal Year (FY) 2005 MODS data.⁷ The marginal productivity values
4 are calculated by dividing the MODS productivity values for each operation by the
5 volume variability factors found in USPS-T-11, Table 1.⁸

6 **ii. WAGE RATES**

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

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

12 "Piggyback" factors are used to estimate indirect costs.¹⁰ I used the FY 2005
13 MODS mail volumes by machine type to calculate weighted piggyback factors for BCS
14 operations. This methodology is consistent with that relied upon in Docket No. R2005-1.

15 **iv. PREMIUM PAY FACTORS**

16 Premium pay factors are used to account for the fact that employees earn
17 "premium pay" for evening and Sunday work hours. In general, First-Class Mail is
18 processed during the premium pay time periods (Tours 3 and 1) while Standard Mail is
19 processed during regular business hours (Tour 2).¹¹ Therefore, the First-Class Mail
20 factor is greater than the Standard Mail factor.¹²

⁷ Docket No. R2006-1, USPS LR-L-56.

⁸ Weighted volume variability factors are developed for Bar Code Sorter (BCS) factors using FY 2005 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).

⁹ Docket No. R2006-1, USPS LR-L-55.

¹⁰ Docket No. R2006-1, USPS LR-L-52.

¹¹ Some Standard Mail processing, like the second pass of DPS, does occur during Tours 1 and 3.

¹² Docket No. R2006-1, USPS LR-L-55.

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 in Docket No. R2005-1.¹³

6 **c. CRA ADJUSTMENTS**

7 The model costs for each rate category are weighted together using base year
8 mail volumes.¹⁴ The base year volume distributions are used so that the distribution
9 matches that underlying the CRA. The sum of the CRA proportional cost pools is then
10 divided by this weighted model cost in order to calculate the CRA proportional
11 adjustment factor. The costs for the remaining cost pool classification are used as fixed
12 adjustments. The total mail processing unit costs are calculated as follows:

13
14
$$((\text{Mail Processing Model Unit Cost}) * (\text{Proportional Factor})) + (\text{Fixed Factor})$$

15

16 This methodology is consistent to that relied upon by the Commission in Docket No.
17 R2005-1.

18 The First-Class Mail presort cards and letters and Standard Mail Regular letters
19 mail processing unit cost estimates by rate category are shown in Table 1 below.

¹³ Docket No. R2005-1, PRC-LR-9.

¹⁴ Docket No. R2006-1, USPS LR-L-77.

1
2
3

**TABLE 1: USPS LETTERS AND CARDS
TOTAL MAIL PROCESSING UNIT COST ESTIMATES**

RATE CATEGORY	TOTAL MAIL PROCESSING UNIT COST ESTIMATE (CENTS)
FIRST-CLASS MAIL PRESORT CARDS	
Nonautomation Presort Cards	5.327
Automation MAADC Presort Cards	3.913
Automation AADC Presort Cards	3.266
Automation 3-Digit Presort Cards	3.040
Automation 5-Digit Presort Cards	2.305
Automation Carrier Route Presort Cards	1.808
FIRST-CLASS MAIL PRESORT LETTERS	
Nonautomation Presort Letters	6.302
Automation MAADC Presort Letters	6.470
Automation AADC Presort Letters	5.325
Automation 3-Digit Presort Letters	4.926
Automation 5-Digit Presort Letters	3.625
Automation Carrier Route Presort Letters	2.746
STANDARD MAIL REGULAR LETTERS	
Nonautomation MADC / MAADC Presort Letters	6.344
Nonautomation ADC / AADC Presort Letters	5.890
Nonautomation 3-Digit Presort Letters	5.785
Nonautomation 5-Digit Presort Letters	5.247
Automation MAADC Presort Letters	5.637
Automation AADC Presort Letters	4.665
Automation 3-Digit Presort Letters	4.326
Automation 5-Digit Presort Letters	3.221

1 **IV. BUSINESS REPLY MAIL COST ESTIMATES**

2 This section of my testimony describes the development of the Qualified
3 Business Reply Mail (BRM) cost avoidance estimate and the additional cost estimates
4 used to support the Business Reply Mail (BRM) fees. In this docket, these cost studies
5 are contained in USPS-LR-L-69. In Docket No. R2005-1, these cost studies were
6 contained in USPS-LR-K-69. The results of these cost studies are summarized in Table
7 2 below.

8 **A. QUALIFIED BUSINESS REPLY MAIL COST AVOIDANCE ESTIMATE**

9 The QBRM discount was established in Docket No. R97-1, based on an analysis
10 showing cost savings associated with Postal Service-approved, prebarcoded reply mail
11 pieces. This cost savings, or cost avoidance, is calculated as the difference between
12 the mail processing unit cost estimate for a handwritten First-Class Mail single-piece
13 reply mail piece and the mail processing unit cost estimate for a preapproved,
14 prebarcoded First-Class Mail single-piece reply mail piece.

15 In Docket No. R2005-1, witness Hatcher, the BRM cost witness,¹⁵ relied on a
16 narrowly defined cost analysis consistent with that first presented in Docket No. R97-1. I
17 rely on a similar approach. My analysis is limited to costs incurred up to the point each
18 mail piece receives its first barcoded sortation on a BCS. The model has been updated
19 to include test year 2008 productivity figures, volume variability factors, RBCS data,
20 piggyback factors, wage rates, and premium pay factors.

¹⁵ Docket No. R2005-1, USPS-T-22

1 **B. BUSINESS REPLY MAIL FEE ADDITIONAL COST ESTIMATES**

2 BRM is a Special Service in which permitted mailers offer their customers
3 prepaid postage on letters, cards, and parcels preaddressed to the mailer. Customers
4 use these mail pieces to reply to the mailer with subscription renewals, bill payments,
5 survey responses, fundraising donations, and other remittances. The mailer has the
6 advantage of not having to pay postage on the mail piece until and unless it is actually
7 returned by the customer.

8 Mailers of BRM mail pieces are required to pay the applicable First-Class Mail or
9 Priority Mail postage, plus the applicable fees, for all returned BRM. In addition, all
10 mailers of BRM mail pieces must pay an annual permit fee. Mailers may choose to
11 have the postage and fees paid for out of an advance deposit account or a postage due
12 account. Mailers who choose to pay out of an advance deposit account must pay an
13 annual accounting fee. The sizes of the respective per-piece fees depend upon whether
14 the mail piece is automation-compatible and whether associated fees are paid on a
15 monthly, quarterly, or annual basis.

16 This section provides the additional cost estimates for the BRM fees: the annual
17 permit fee, the annual accounting fee, the QBRM quarterly fee, the non-letter size BRM
18 monthly fee, the high volume QBRM per-piece fee, the basic QBRM per-piece fee, the
19 high volume BRM per-piece fee, the basic BRM per-piece fee, and the non-letter size
20 BRM per-piece fee.¹⁶ The cost methodologies used to calculate these fees are
21 unchanged from Docket No. R2005-1. The results from a recent BRM practices study,
22 however, have now been incorporated into the cost models.¹⁷

¹⁶ The annual permit fee and the annual accounting fee also apply to services other than BRM.

¹⁷ Docket No. R2006-1, USPS-LR-34.

1 **1. ANNUAL PERMIT FEE**

2 Mailers have the option of using a permit imprint (e.g., BRM permit) to pay for
3 postage, rather than using either stamps or meter strips. Permits must be obtained at
4 the post office point-of-entry. The mailer submits a Form 3615, *Mailing Permit*
5 *Application and Customer Profile*, and pays the permit fee. The mailer must thereafter
6 pay the permit fee annually. If a mailer does not mail permit imprint mailings during a
7 24-month period, does not pay the annual fee, or does not comply with any standard
8 applicable to permit imprints, the permit may be revoked. The cost methodology used to
9 calculate this permit fee remains unchanged from Docket No. R2005-1. The cost study
10 incorporates the costs of the following elements: permit issuance, literature, and permit
11 revocation.

12 **2. ANNUAL ACCOUNTING FEE**

13 In order to qualify for some Special Service fee categories, mailers must
14 establish an advance deposit account. For example, use of an advance deposit account
15 qualifies returned BRM mail pieces for reduced per-piece fees. An annual accounting
16 fee must be paid by mailers who establish an advance deposit account. Clerks deduct
17 the appropriate charges from these accounts after performing all the counting, rating
18 and billing tasks. If a permit mailer account is deficient of funds, a postage due clerk
19 must contact the mailer. The annual accounting fee covers such costs associated with
20 the maintenance and oversight of the accounts, including those used for Bulk Parcel
21 Return Service (BPRS), Merchandise Return Service (MRS), Shipper Paid Forwarding,
22 and BRM. The cost methodology has remained unchanged from Docket No. R2005-1.

1 **3. QUALIFIED BUSINESS REPLY MAIL QUARTERLY FEE**

2 A new rate category for high volume QBRM mailers was established in Docket
3 No. R2000-1 after it was determined that the rating and billing functions for this type of
4 mail were fixed in nature. The quarterly fee was established to cover the rating and
5 billing costs of this mail type. This quarterly fee can be paid for any consecutive three
6 calendar month period, which in turn authorizes the mailer to pay the high-volume
7 QBRM per-piece fee for returned mail pieces. The cost methodology used to calculate
8 this fee remains unchanged since Docket No. R2005-1.

9 **4. NON-LETTER SIZE BUSINESS REPLY MAIL MONTHLY FEE**

10 The non-letter size BRM rate category was established in Docket No. MC99-2.
11 This rate category is primarily used by film processors and printing companies. The
12 process used for sampling and billing these pieces is called bulk weight averaging,
13 which is based upon principles of mathematical statistics. These pieces are weighed, in
14 bulk, at participating facilities, where computers with special software calculate average
15 postage due per pound and average piece count per pound based on statistically valid
16 samples drawn from the total volume. The sampling is done monthly in order to ensure
17 that the conversion factors are current. The total weight is multiplied by these
18 conversion factors to obtain the estimated volume received and to determine the
19 appropriate postage and fee amounts. The monthly fee was established in order to
20 cover the related costs of billing and sampling. The cost methodology used to calculate
21 costs for this fee remains the same as the one used in Docket No. R2005-1.

22 **5. HIGH VOLUME QBRM PER-PIECE FEE**

23 As discussed earlier, high-volume QBRM mailers who pay the QBRM quarterly
24 fee are entitled to a lower per-piece fee. The quarterly fee covers the fixed rating and

1 billing costs for this category. The per-piece fee covers the costs associated with
2 counting the mail pieces above and beyond the activities covered by the First-Class
3 Mail postage. The cost methodology used to calculate costs for this fee remains the
4 same as the one used in Docket No. R2005-1.

5 **6. BASIC QUALIFIED BUSINESS REPLY MAIL PER-PIECE FEE**

6 Mailers who do not have sufficient BRM volume to justify paying a quarterly fee
7 have the option of using the basic QBRM category. Basic QBRM mail pieces have to
8 meet the same requirements as high volume QBRM mail, and mailers of basic QBRM
9 pieces must have all fees and charges deducted from an advance deposit account.
10 This basic QBRM per-piece fee covers the counting, rating, and billing costs above and
11 beyond the activities covered by the First-Class Mail postage. The cost methodology
12 used to calculate costs for this fee remains the same as the one used in Docket No.
13 R2005-1.

14 **7. HIGH VOLUME BUSINESS REPLY MAIL PER-PIECE FEE**

15 Mailers who choose not to meet the Postal Service automation requirements for
16 QBRM mailings have the option of using the high volume BRM fee category. These
17 mailers are still required to have all postage and fees deducted from an advance
18 deposit account. The high volume BRM per-piece fee covers the counting, rating, and
19 billing costs above and beyond the activities associated with the First-Class Mail
20 postage. The cost methodology used to calculate costs for this fee remains the same as
21 the one used in Docket No. R2005-1.

22 **8. BASIC BUSINESS REPLY MAIL PER-PIECE FEE**

23 Mailers who do not have enough volume to justify paying an annual accounting
24 fee can use the basic BRM category. This fee has the highest costs associated with its

1 usage due to the fact that a higher percentage of the counting, rating, and billing costs
 2 are performed manually. Mailers who use this category have the option of paying their
 3 postage and fees upon pickup or by using a postage due account. Postage due
 4 accounts also require maintenance and oversight similar to an advance deposit
 5 account. The cost methodology used to calculate costs for this fee remains the same
 6 as the one used in Docket No. R2005-1.

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

8 The per-piece fee for non-letter size BRM covers the costs associated with
 9 counting these mail pieces. Bulk weight averaging is used to count the incoming non-
 10 letter size BRM mail pieces as described above. The cost methodology used to
 11 calculate costs for this fee remains the same as the one used in Docket No. R2005-1.

12 **TABLE 2: USPS BRM COST ESTIMATES**

DESCRIPTION	COST ESTIMATE (DOLLARS)
Annual Permit Fee	\$ 127.599
Annual Accounting Fee	\$ 315.513
QBRM Quarterly Fee	\$ 684.258
Non-Letter Size BRM Monthly Fee	\$ 651.501
DESCRIPTION	COST ESTIMATE (CENTS)
QBRM Cost Avoidance	1.495
High Volume QBRM Per-Piece Fee	0.458
Basic QBRM Per-Piece Fee	2.115
High Volume BRM Per-Piece Fee	3.220
Basic BRM Per-Piece Fee	37.579
Non-Letter Size BRM Per-Piece Fee	0.597

14

1 **V. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY**

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

8 The comparison required by this exercise cannot be equated with
9 sponsoring the preexisting methodology. It merely identifies and gives
10 context to the proposed change, serving as a benchmark so that the
11 impact can be assessed. ... [W]itnesses submitting testimony under Rule
12 53(c) sponsor the proposed methodological changes, not the preexisting
13 methodology. That they may be compelled to reference the pre-existing
14 methodology does not mean that they are sponsoring it. Order No. 1380
15 (August 7, 2003) at 7.

16 Therefore, although I may be compelled to refer to the PRC methodologies and
17 versions corresponding to the Postal Service proposals which are the subject of my
18 testimony, my testimony does not sponsor those PRC materials.

19 The PRC version of the cards and letters cost models is contained in USPS-LR-
20 L-110. The PRC version of the BRM cost models is contained in USPS-LR-L-104. The
21 cost models contained in USPS-LR-L-110 and USPS-LR-L-104 are expressed in the
22 same format as the postal versions found in USPS-LR-L-48 and USPS-LR-L-69,
23 respectively, with the exception that four cost inputs differ. The PRC version of these
24 costs models rely on revised piggyback factors (USPS-LR-L-98), CRA mail processing
25 unit cost estimates by shape (USPS-LR-L-99), volume variability factors (USPS-T-11,
26 Table 5), and premium pay factors (USPS-LR-L-100). All other cost model inputs are
27 identical for both the postal and PRC versions of these cost models.

1 The PRC version of the cards and letters total mail processing unit cost
 2 estimates are shown in Table 3 below. The PRC version of the BRM cost estimates are
 3 shown in Table 4 below.

4
 5 **TABLE 3: PRC LETTERS AND CARDS**
 6 **TOTAL MAIL PROCESSING UNIT COST ESTIMATES**
 7

RATE CATEGORY	TOTAL MAIL PROCESSING UNIT COST ESTIMATE (CENTS)
FIRST-CLASS MAIL PRESORT CARDS	
Nonautomation Presort Cards	6.182
Automation MAADC Presort Cards	4.462
Automation AADC Presort Cards	3.719
Automation 3-Digit Presort Cards	3.460
Automation 5-Digit Presort Cards	2.616
Automation Carrier Route Presort Cards	2.052
FIRST-CLASS MAIL PRESORT LETTERS	
Nonautomation Presort Letters	7.168
Automation MAADC Presort Letters	7.159
Automation AADC Presort Letters	5.842
Automation 3-Digit Presort Letters	5.383
Automation 5-Digit Presort Letters	3.886
Automation Carrier Route Presort Letters	2.886
STANDARD MAIL REGULAR LETTERS	
Nonautomation MADC / MAADC Presort Letters	7.017
Nonautomation ADC / AADC Presort Letters	6.503
Nonautomation 3-Digit Presort Letters	6.456
Nonautomation 5-Digit Presort Letters	5.848
Automation MAADC Presort Letters	6.083
Automation AADC Presort Letters	4.987
Automation 3-Digit Presort Letters	4.605
Automation 5-Digit Presort Letters	3.355

8

1
2

TABLE 4: PRC BRM COST ESTIMATES

DESCRIPTION	COST ESTIMATE (DOLLARS)
Annual Permit Fee	\$ 135.772
Annual Accounting Fee	\$ 335.849
QBRM Quarterly Fee	\$ 684.919
Non-Letter Size BRM Monthly Fee	\$ 652.131

DESCRIPTION	COST ESTIMATE (CENTS)
QBRM Cost Avoidance	1.519
High Volume QBRM Per-Piece Fee	0.528
Basic QBRM Per-Piece Fee	2.437
High Volume BRM Per-Piece Fee	3.711
Basic BRM Per-Piece Fee	40.398
Non-Letter Size BRM Per-Piece Fee	0.688

3