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WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY
OF
MICHAEL W. MILLER
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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ASSOCIATED LIBRARY REFERENCES

USPS-LR-L-46: Parcels Cost Models

This library reference contains the cost models that are used to develop Test Year 2008 non-transportation cost estimates for Parcel Post, Bound Printed Matter, and Media / Library Mail. In Docket No. R2005-1, parcels cost models were contained in USPS-LR-K-46 and were described in testimony USPS-T-20.

USPS-LR-L-47: Parcel Post Volume, Cubic Feet, and Weight Data

This library reference describes the development of the Parcel Post volume, cubic feet, and weight data, which are used in the cost models found in USPS-LR-L-46. In Docket No. R2005-1, these data were described in USPS-LR-K-47.

**DIRECT TESTIMONY
OF
MICHAEL W. MILLER**

AUTOBIOGRAPHICAL SKETCH

My name is Michael W. Miller. I am an Economist in Special Studies at the United States Postal Service. Special Studies is a unit of Corporate Financial Planning in Finance at Headquarters. I have testified before the Postal Rate Commission on ten previous occasions.

Most recently, I testified as the Parcel Return Service (PRS) cost witness (USPS-T-2) in Docket No. MC2006-1.

In Docket No. R2005-1, I presented two direct testimonies on behalf of the Postal Service. The first testimony covered First-Class Mail, Periodicals, and Standard Mail flats mail processing unit cost estimates (USPS-T-19). The second testimony presented Parcel Post, Bound Printed Matter, and Media Mail / Library Mail non-transportation cost estimates (USPS-T-20).

In Docket No. C2004-1, I testified as a rebuttal witness in opposition to the Time Warner, et al. complaint case (USPS-RT-1).

In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness on behalf of the Postal Service. The first testimony presented First-Class Mail letters/cards and Standard Mail letters mail processing unit cost estimates and worksharing related savings estimates, the Qualified Business Reply Mail (QBRM) worksharing related savings estimate, the nonstandard surcharge/nonmachinable surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies (USPS-T-22). The second testimony presented First-Class Mail, Periodicals, and Standard Mail flats mail processing unit cost estimates (USPS-T-24).

In Docket No. R2000-1, I testified as the direct witness presenting First-Class Mail letters/cards and Standard Mail letters mail processing unit cost estimates and worksharing related savings estimates (USPS-T-24). My testimony also included the cost study supporting the nonstandard surcharge. In that same docket, I also testified

as a rebuttal witness (USPS-RT-15). My rebuttal testimony contested key elements of the worksharing discount proposals presented by several First-Class Mail intervenors, as well as the Office of the Consumer Advocate (OCA).

In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply Mail (PRM) and QBRM mail processing cost avoidance estimates (USPS-T-23). In that same docket, I also testified as a rebuttal witness concerning the Courtesy Envelope Mail (CEM) proposal presented by the OCA (USPS-RT-17).

Prior to joining the Special Studies unit in January 1997, I served as an Industrial Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego, California. In that capacity, I worked on field implementation projects. For example, I was the local coordinator for automation programs in San Diego such as the Remote Bar Coding System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also responsible for planning the operations for a new Processing and Distribution Center (P&DC) that was activated in 1993. In addition to field work, I have completed detail assignments within the Systems/Process Integration group in Engineering. My primary responsibility during those assignments was the development of Operating System Layouts (OSL) for new facilities.

Prior to joining the Postal Service, I worked as an Industrial Engineer at General Dynamics Space Systems Division, where I developed labor and material cost estimates for new business proposals. These estimates were submitted as part of the formal bidding process used to solicit government contracts.

I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa State University in 1984 and a Master of Business Administration from San Diego State University in 1990. I also earned a Professional Engineer registration in the State of California in 1990 and a Methods Time Measurement (MTM) "blue card" certification in 2004.

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony describes the development of the Test Year (TY) 2008 Parcel Post, Bound Printed Matter, and Media Mail / Library Mail non-transportation cost estimates. The Parcel Post estimates have been provided to witness Kiefer (USPS-T-37) to support rate design and to witness Page (USPS-T-23) for purposes of calculating final adjustments. The Bound Printed Matter and the Media Mail / Library Mail estimates have been provided to witness Yeh (USPS-T-38) to support rate design, and the Media Mail / Library Mail estimates have also been provided to witness Mayes (USPS-T-25) to support the estimated costs of Bulk Parcel Return Service.

II. GUIDE TO TESTIMONY

The parcels cost models can be found in USPS-LR-L-46. In addition to USPS-LR-L-46, I am sponsoring library reference USPS-LR-L-47, which contains Parcel Post volume, cubic feet, and weight data.

The parcels cost models rely on data inputs that have been generated by other postal witnesses. Witness Van-Ty-Smith (USPS-T-11) provides wage rates (USPS-LR-L-55), premium pay factors (USPS-LR-L-55), and volume variability factors (USPS-T-11, Table 1); witness Bozzo (USPS-T-12) provides base year Management Operating Data System (MODS) productivity figures (USPS-LR-L-56); witness Smith (USPS-T-13) provides piggyback factors (USPS-LR-L-52) and mail processing unit cost estimates by shape (USPS-LR-L-53); witness Milanovic (USPS-T-9) provides base year cost data (USPS-LR-L-5); witness Waterbury (USPS-T-10) provides test year cost data (USPS-LR-L-7); witness Mayes (USPS-T-25) provides Parcel Post transportation cost data (USPS-LR-L-89); and witness Talmo (USPS-T-27) provides Parcel Post window service costs and Bound Printed Matter mail processing costs (USPS-LR-L-86). Billing determinants data are also used in the models and can be found in USPS-LR-L-77.

My test year Parcel Post cost estimates have been provided to witness Kiefer (USPS-T-37) to support rate design and to witness Page (USPS-T-23) for purposes of calculating final adjustments. The Bound Printed Matter and Media Mail / Library Mail cost estimates have been provided to witness Yeh (USPS-T-38) to support rate design. Media Mail / Library Mail cost model data have also been provided to witness Mayes (USPS-T-25) to support the estimated costs of Bulk Parcel Return Service.

III. PARCELS COST ESTIMATES

This testimony describes the parcels cost estimates, which were last calculated in Docket No. R2005-1, USPS-LR-K-46. Most changes that have been made to the cost models involve simple updates of cost model inputs (e.g., wage rates, piggyback factors). Those cases in which other changes were required are described below.

A. TEST YEAR PARCELS MAIL PROCESSING TECHNOLOGIES

In TY 2008, it is assumed that the Postal Service parcel processing network will be identical to that used to forecast TY 2006 costs in Docket No. R2005-1. Machinable parcels are sorted to the 5-digit level at one of the 21 Bulk Mail Centers (BMCs) or eight Auxiliary Service Facilities (ASFs). Non Machinable Outsides (NMO) and oversize parcels are generally sorted to the 3-digit level at the BMCs and are then dispatched to Processing and Distribution Centers (P&DCs) or Processing and Distribution Facilities (P&DFs), where they are then sorted to the 5-digit level. Parcels are dispatched to Delivery Units (DUs) once they have been sorted to the 5-digit level. At the DUs, clerks then sort the parcels to the carrier route level.

B. COST MODEL CHANGES

In the instant proceeding, the parcels cost models have been changed in two primary ways: 1) the Parcel Return Service (PRS) cost study has been incorporated into the Parcel Post cost model, and 2) the Parcel Post, Bound Printed Matter, and Media Mail / Library Mail cost models have all been modified to accommodate BMC Management Operating Data System (MODS) productivity data.

1. PARCEL RETURN SERVICE

On October 17, 2005, the Postal Service filed Docket No. MC2006-1, which was a request for a permanent PRS classification. I was the cost witness in that docket (USPS-T-2). The cost study was included as Attachments A through H to my testimony. On March 3, 2006, the Postal Rate Commission issued an Opinion and Recommended Decision that recommended a permanent PRS classification. On March 22, 2006, the Governors approved that recommendation and the Board of Governors set April 2, 2006

as the implementation date. As a result of these developments, I have now included the PRS cost model in the Parcel Post portion (pages 1 to 41) of USPS-LR-L-46.

The mail processing cost models for Return Bulk Mail Center (RBMC) and Return Delivery Unit (RDU) PRS mail can be found in USPS-LR-L-46, pages 25 to 30. The base year mail volumes for these rate categories are now included in the volume data page in USPS-LR-L-46, page 7. The mail processing unit cost estimates are also weighted together with the other Parcel Post rate categories when the Cost and Revenue Analysis (CRA) adjustment factors are calculated in USPS-LR-L-46, page 1.

The PRS savings estimates can be found in USPS-LR-L-46, page 2. In addition to the mail processing unit cost estimates described above, the PRS-specific cost estimates that are relied upon to develop the savings estimates can be found in USPS-LR-L-46, pages 35 to 41. The methodology used to calculate the savings estimates is identical to that used in Docket No. MC2006-1, with the exception that the acceptance cost savings estimates have been removed. In Docket No. MC2006-1, I was asked by the Office of the Consumer Advocate (OCA) why acceptance cost savings were only provided for mail pieces that were entered through the window service distribution channel.¹ As I stated in my response, the Postal Service does not have the detailed PRS distribution channel data that would be necessary to perform a more detailed analysis. Furthermore, the acceptance cost savings estimates are a very small portion of the total savings estimates. Consequently, the acceptance cost savings estimates have now been removed from the PRS cost study.

2. MODS PRODUCTIVITY DATA

In Docket No. R2005-1, USPS-T-20, Section III.B, I described how the BMCs had converted from the Productivity Information Management System (PIMS) to MODS in Fiscal Year (FY) 2004. In my response to Presiding Officer's Information Request (POIR) Number 4, Question 5 in that docket, MODS productivity data were provided for Quarters 1 and 2 of FY 2005.² In the instant proceeding, the PIMS data have been removed from the parcels mail flow cost models.³ MODS productivity data⁴ are now

¹ Docket No. MC2006-1, Tr. 2/130 (OCA/USPS-T2-12).

² Docket No. R2005-1, Tr. 8B/3583.

³ PIMS data are, however, relied upon to estimate pre-barcode unit cost savings, which is described later in this testimony.

being relied upon to develop cost estimates for the following operations: the Primary Parcel Sorting Machine (PPSM), the Secondary Parcel Sorting Machine (SPSM), the Sack Sorting Machine (SSM), and the Non Machinable Outsides (NMO) operation.

In my response to POIR No. 4, Question 5 in Docket No. R2005-1, I also stated that the PIMS data and MODS data are not directly comparable. This is true for the PPSM, SPSM, and SSM operations. It is my understanding that PIMS productivities for these operations were calculated using keying work hours only. The MODS productivities are now calculated using the work hours for keying, sweeping, and other related activities. Consequently, some tasks that were previously explicitly included in the cost models have been deleted because they are now covered by the MODS productivity figures.⁵

C. COST METHODOLOGY

In Docket No. R2005-1, a combination of hybrid and cost avoidance cost methodologies were used to develop cost estimates. Those same methodologies are again relied upon in this docket. The specific cost methodology that is used varies by subclass.

⁴ Docket No. R2006-1, USPS-LR-L-56.

⁵ The following tasks were removed: "sack shakeout," "sweep runouts," and "sack and tie."

IV. PARCEL POST COST ESTIMATES

The Parcel Post cost study results can be found in Table 1 below.⁶ A hybrid cost methodology is relied upon in all but five of the cost analyses.⁷ Those analyses are discussed in more detail below.

A. HYBRID COST METHODOLOGY

Using a hybrid approach, mail flow cost models are first developed for each Parcel Post mail stream (e.g, machinable Inter-BMC parcels). Each mail flow cost model depicts the direct labor operations in which those mail pieces incur costs. An example of these cost models can be found in USPS-LR-L-46, page 9. The inputs to these cost models can be found in USPS-LR-L-46, pages 4-8.

The first column in the mail flow cost model depicts the "number of handlings" each mail piece incurs in each operation. When a given activity with the cost model only has one productivity or cost value to which it is associated, the number of handlings is 1.000. For example, looking at the cost model on page 9 of USPS-LR-L-46, the indicated number of handlings for the PPSM operation at the origin BMC is 1.000, as each parcel would have to be individually processed on that machine and there is only one line item depicting PPSM processing. When a percentage distribution is used to reflect the fact that a given activity can be performed using a variety of methods, the number of handlings is less than 1.000. For example, the bedload/load task consists of seven methods (bedload sacks, bedload loose, load sacks in OTR, etc.), all of which have "number of handlings" values less than 1.000. The sum of the number of handling values for those seven methods, however, is equivalent to 1.000.

The second column shows the productivity figures for each operation. These figures can be found on page 4 and have been adjusted using volume variability factors.

The third column contains conversion factors. Conversion factors indicate the number of parcels per container that can be processed per handling. When parcels are handled individually, the conversion factor is 1.000.

⁶ More detailed results can be found in USPS-LR-L-46, page 1.

⁷ A hybrid cost methodology indicates that a combination of engineering cost models and Cost and Revenue Analysis (CRA) data are used to develop estimates by rate category.

The fourth column displays piggyback factors which have historically been relied upon to estimate "indirect" costs. Piggyback factors can be found on page 6 of L-46.⁸

The fifth column calculates the cost per operation. The product of the test year premium pay-adjusted mail processing wage rate (from page 6 of L-46) and the piggyback factor for each operation are divided by the product of the productivity and conversion factor for that operation.

The sixth column displays the total operation cost, or cost per facility. These figures are calculated by multiplying the operation cost by the number of handlings for that operation. The sum of the operation costs per facility is the model cost for that particular mail stream.

On page 1 of USPS-LR-L-46, these model costs are weighted together using base year 2005 mail volumes. The weighted model cost estimate is then compared to the sum of the CRA mail processing proportional cost pools.⁹ A proportional adjustment factor is calculated by dividing the sum of the proportional CRA mail processing cost pools by the aggregate weighted model cost for all mail streams. The sum of the non-proportional (non-modeled) cost pools is used as a fixed adjustment factor.

For each mail stream, the CRA-adjusted total mail processing unit cost estimate is calculated by adding the CRA fixed adjustment factor to the product of the CRA proportional adjustment factor and the model cost for that mail stream.

These data are used to develop aggregate (machinable, NMO, and oversize) total mail processing unit cost estimates by rate category. These figures are also used to calculate cost savings estimates and additional cost estimates as indicated in Table 1. There are, however, five instances in which a more narrowly defined cost avoidance methodology has been relied upon, as indicated in the next section.

B. COST AVOIDANCE METHODOLOGY

The five cost analyses described below include savings estimates that were developed using a more narrowly defined cost avoidance methodology.

⁸ It was discovered late in the rate case development process, after the results of my model were incorporated into the analyses of downstream witnesses, that the PPSM and SPSM piggyback factors in USPS-LR-L-46, pages 6 (Parcel Post), 45 (Bound Printed Matter), and 57 (Media Mail / Library Mail) are incorrect. The MODS-adjusted piggyback factors of 1.756 and 2.464, respectively, should have been used. Details are provided in an addendum to USPS-LR-L-46.

⁹ The costs within the proportional cost pools represent the tasks that were included in the models.

1. PRS Cost Savings Estimates

As stated above, the PRS cost study has been incorporated into USPS-LR-L-46 and generally relies on the same cost methodologies described in Docket No. MC2006-1, USPS-T-2. The Intra-BMC machinable, non-machinable, and oversize categories are again used as the benchmarks for the corresponding RBMC and RDU rate categories. Saving estimates are calculated in the following five areas: mail processing, storage, transportation, scanning, and postage due.

2. DBMC Window Service Unit Cost Savings Estimate

The DBMC window service unit cost savings estimate is calculated using the same methodology described in Docket No. R2005-1, USPS-T-20 and is shown in USPS-LR-L-46, page 34. First, the cost distribution between Parcel Select and Non Parcel Select window service costs is calculated by witness Talmo (USPS-T-27) in USPS-LR-L-86. The distribution percentages are then applied to base year window service costs. Base year unit costs are obtained by dividing the Parcel Select and Non Parcel Select base year costs by the corresponding base year volumes. Test year costs are calculated by multiplying the base year unit costs by a piggyback factor and wage adjustment factor. This latter factor is equal to the test year window service wage rate divided by the base year window service wage rate. The DBMC window service savings estimate is then calculated to be the difference between the Non Parcel Select window service unit cost estimate and the Parcel Select window service unit cost estimate.

3. BMC Presort Mail Processing Unit Cost Savings Estimate

The BMC presort mail processing unit cost savings estimate is calculated in USPS-LR-L-46, page 31. The savings estimate is measured to be the mail processing unit cost difference between a nonpresorted (inter-BMC) mail piece and a BMC presorted mail piece. The nonpresorted costs have been taken from two other Parcel Post cost models in USPS-LR-L-46. The machinable origin BMC costs and the destinating BMC Postal Pak unloading costs are taken from the cost model on page 9. The NMO origin BMC cost and the destinating BMC pallet unloading costs are taken from the model on page 10.

The BMC presort costs for machinable parcels and NMOs are calculated separately in USPS-LR-L-46, page 32, using the mail flow cost model methodology described earlier in this testimony. The operations in the model have been changed to reflect the fact that BMC presorted parcels only need to be crossdocked at the origin BMC. In addition, the conversion factors have been changed to accommodate BMC presort requirements.

On page 31 of USPS-LR-L-46, the machinable and NMO BMC presort model costs are subtracted from the machinable and NMO nonpresorted model costs. These figures are then weighted together using the percentage distribution of inter-BMC machinable and NMO parcels.

4. OBMC Unit Cost Savings Estimate

The Origin BMC (OBMC) cost savings consists of two estimates. The first estimate is the cost an OBMC parcel avoids by being entered at the origin BMC. Since an OBMC parcel avoids costs at the facilities upstream from the BMC, these costs are equivalent to the costs a DBMC parcel avoids, including window services costs.¹⁰ The second estimate relates to the fact that OBMC parcels are presorted by destination BMC. These avoided costs are the same as the BMC-presorted parcel unit cost savings. Therefore, the estimated unit costs avoided by an OBMC parcel are the sum of the DBMC unit cost savings estimate and the BMC presort unit cost savings estimate. These calculations are performed on page 1 of USPS-LR-L-46 using summary data that are also contained on page 1.

5. Pre-Barcode Unit Cost Savings Estimate

On the PPSM, pre-barcode parcels and non-barcode parcels are currently processed differently. For non-barcode parcels, a PPSM clerk must key the 5-digit ZIP Code found on the parcel. In contrast, the clerk must simply position and face a pre-barcode parcel so that the scanners can read the barcode. The cost savings estimate associated with pre-barcode parcels is found in USPS-LR-L-46, page 33 and is derived

¹⁰ Although both the DBMC and OBMC parcels avoid costs upstream from the BMC, DBMC parcels avoid those costs in comparison to intra-BMC parcels while OBMC parcels avoid those costs compared to inter-BMC parcels.

using PIMS productivity figures that reflect these keying task differences. This is the only instance in which PIMS data is used for any purpose in USPS-LR-L-46.

The Parcel Post cost estimates are summarized below in Table 1.

TABLE 1: USPS PARCEL POST COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates (For Final Adjustments)	
Aggregate Inter-BMC	\$ 2.740
Aggregate Intra-BMC	\$ 2.249
Aggregate DBMC	\$ 1.533
Aggregate DSCF	\$ 0.852
Aggregate DDU	\$ 0.428
Aggregate RBMC	\$ 1.827
Aggregate RDU	\$ 0.476
Mail Processing Unit Cost Savings Estimates	
Aggregate BMC Presort (Inter-BMC Benchmark)	\$ 0.248
Machinable Intra-BMC (Machinable Inter-BMC Benchmark)	\$ 0.425
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.613
Aggregate DSCF (DBMC Benchmark)	\$ 0.680
Aggregate DDU (DBMC Benchmark)	\$ 1.104
Window Service Unit Cost Savings Estimate	
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.301
NMO Additional Mail Processing Unit Cost Estimates	
Inter-BMC NMO (Machinable Inter-BMC Benchmark)	\$ 3.617
Intra-BMC NMO (Machinable Intra-BMC Benchmark)	\$ 2.466
DBMC NMO (Machinable DBMC Benchmark)	\$ 2.176
Oversize Additional Mail Processing Unit Cost Estimates	
Inter-BMC Oversize (Machinable Inter-BMC Benchmark)	\$ 12.098
Intra-BMC Oversize (Machinable Intra-BMC Benchmark)	\$ 8.987
DBMC Oversize (Machinable DBMC Benchmark)	\$ 5.590
DSCF Oversize (Machinable DSCF Benchmark)	\$ 3.601
DDU Oversize (Machinable DDU Benchmark)	\$ 0.491
Other Mail Processing Cost Estimates	
Aggregate OBMC Unit Cost Savings Estimate (Inter-BMC Benchmark)	\$ 1.177
NMO 3-Digit DSCF Additional Unit Cost Estimate (Aggregate DSCF Benchmark)	\$ 1.012
Pre-Barcode Unit Cost Savings Estimate (Non-Barcoded Parcel Benchmark)	\$ 0.032
PRS Cost Savings Estimates	
RBMC Machinable (Intra-BMC Machinable Benchmark)	\$ 1.525
RBMC Non-Machinable (Intra-BMC Non-Machinable Benchmark)	\$ 4.671
RBMC Oversize (Intra-BMC Oversize Benchmark)	\$ 13.758
RDU Machinable (Intra-BMC Machinable Benchmark)	\$ 2.848
RDU Non-Machinable (Intra-BMC Non-Machinable Benchmark)	\$ 8.166
RDU Oversize (Intra-BMC Oversize Benchmark)	\$ 24.159

V. BOUND PRINTED MATTER COST ESTIMATES

The Bound Printed Matter cost estimates are displayed in Table 2 below. A cost avoidance methodology is relied upon to develop estimates for the Destination Bulk Mail Center (DBMC), Destination Sectional Center Facility (DSCF), Destination Delivery Unit (DDU), and carrier route presort Bound Printed Matter rate categories. In addition, a flat - parcel cost differential is calculated.

The DBMC mail processing unit cost savings estimate has been developed using a methodology identical to that used in Docket No. R2005-1. The percentage of outgoing BMC costs that are avoided by DBMC parcels is first calculated in USPS-LR-L-46, page 49. That percentage is then used as an input to the analysis conducted in USPS-LR-L-46, page 50. Test year outgoing BMC, ASF, and non-BMC costs from USPS-LR-L-86 are also used as inputs to this analysis. The avoided outgoing BMC costs are calculated by multiplying the percentage from page 49 by the total test year outgoing BMC costs. The total avoided costs in the test year are calculated by adding the avoided test year outgoing BMC costs to the outgoing non-BMC costs and a portion of the outgoing ASF costs. The DBMC mail processing unit cost savings estimate is then calculated by dividing the total avoided test year costs by the volume of mail entered upstream from the BMC.

The DSCF mail processing unit cost savings estimate is calculated using the same approach relied upon in Docket No. R2005-1. This estimate is calculated to be the cost difference between the DBMC mail flow cost model and the DSCF mail flow cost model found in USPS-LR-L-46, pages 47 and 48, respectively. The structure of these models is described in Parcel Post section IV.A above.¹¹

The DDU mail processing unit cost savings estimate is measured in comparison to a DSCF benchmark. It is calculated to be the total DSCF model cost found in USPS-LR-L-46, page 48, less the portion of the model costs from that same page that are incurred at the DDU.

The carrier route presort unit cost savings estimate methodology is identical to that relied upon in Docket No. R2005-1. This estimate is calculated to be the cost

difference between carrier route presort mail compared to basic presort mail. The savings are driven by the fact that carrier route presort parcels do not have to be sorted to the carrier route at the destination facility. The analysis can be found in USPS-LR-L-46, page 51.

A flat - parcel cost differential is again calculated in this docket using a methodology identical to that relied upon in Docket No. R2005-1. The analysis can be found in USPS-LR-L-46, page 52. The total base year delivery activities costs by shape have been taken from USPS-LR-L-5. Base year unit costs by shape are calculated by dividing the total costs by the corresponding FY 2005 RPW volumes. These data are used to determine the percentage of base year costs by shape. Those percentages are then applied to total test year delivery activities costs, which have been obtained from USPS-LR-L-7. The total test year costs by shape are then divided by the FY 2005 RPW volumes to get test year unit costs by shape. The flat - parcel cost differential is calculated to be the difference between the test year parcel unit cost and the test year flat unit cost.

The Bound Printed Matter cost estimates are summarized below in Table 2.

TABLE 2: USPS BOUND PRINTED MATTER COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
DBMC Unit Cost Savings Estimate (Non Dropship Benchmark)	\$ 0.305
DSCF Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.455
DDU Unit Cost Savings Estimate (DSCF Benchmark)	\$ 0.137
Carrier Route Presort Unit Cost Savings Estimate (Basic Presort Benchmark)	\$ 0.096
Flats - Parcel Cost Differential	\$ 0.127

¹¹ It was discovered late in the rate case development process, after the results of my model were incorporated into the analysis of the downstream witness, that certain incorrect values were used in the productivities column of the DSCF model cost summary on page 48 of USPS-LR-L-46. Details are provided in an addendum to USPS-LR-L-46.

VI. MEDIA MAIL / LIBRARY MAIL COST ESTIMATES

The Media Mail / Library Mail cost estimates are shown in Table 3 below. A hybrid cost methodology is relied upon to develop total mail processing unit cost estimates for the single-piece, basic presort and 5-digit presort rate categories. These estimates are then used to calculate mail processing unit costs savings estimates for the basic presort and 5-digit presort rate categories.

A combination of mail flow cost models and CRA mail processing unit cost estimates by shape are used to develop the estimates by rate category, similar to what was described above for Parcel Post (see section IV.A). The one exception is that the CRA mail processing unit cost by shape estimate represents the aggregate costs for Media Mail and Library Mail, which have identical rate structures. The basic presort and 5-digit presort mail processing unit cost savings estimates are calculated by subtracting the total mail processing unit cost estimates for each rate category from the total mail processing unit cost estimate for the single-piece benchmark.

The Media Mail / Library Mail cost estimates are summarized in Table 3 below.

TABLE 3: USPS MEDIA MAIL / LIBRARY MAIL COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates	
Single-Piece	\$ 1.172
Basic Presort	\$ 0.891
5-Digit Presort	\$ 0.710
Mail Processing Unit Cost Savings Estimates	
Basic Presort (Single-Piece Benchmark)	\$ 0.281
5-Digit Presort (Single-Piece Benchmark)	\$ 0.462

VII. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY

To the extent that, in response to Commission Rule 53, I discuss and compare Postal Rate Commission (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 pre-existing 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 pre-existing methodology. That they may be compelled to reference the pre-existing 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.

The PRC version of the parcels cost models are contained in USPS-LR-L-103.¹² The cost models contained in USPS-LR-L-103 are expressed in the same format as the Postal Service versions found in USPS-LR-L-46, with the exception that eight cost inputs have changed. The PRC version of the parcels costs models rely on different piggyback factors (USPS-LR-L-98), CRA mail processing unit cost estimates by shape (USPS-LR-L-99), volume variability factors (USPS-T-11, Table 5), premium pay factors (USPS-LR-L-100), base year cost data (USPS-LR-L-93), test year cost data (USPS-LR-L-96), Parcel Post window service costs and Bound Printed Matter mail processing costs (USPS-LR-L-109), and Parcel Post transportation costs (USPS-LR-L-113). All other cost model inputs are identical for both the Postal Service and PRC versions of the parcels cost models.

¹² Late in the rate case development process it was discovered that certain incorrect values were used in the productivities column of the DSCF model cost summary on page 48 of USPS-LR-L-103. Details are provided in an addendum to USPS-LR-L-103.

TABLE 4: PRC PARCEL POST COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates (For Final Adjustments)	
Aggregate Inter-BMC	\$ 2.816
Aggregate Intra-BMC	\$ 2.315
Aggregate DBMC	\$ 1.550
Aggregate DSCF	\$ 0.891
Aggregate DDU	\$ 0.448
Aggregate RBMC	\$ 1.874
Aggregate RDU	\$ 0.496
Mail Processing Unit Cost Savings Estimates	
Aggregate BMC Presort (Inter-BMC Benchmark)	\$ 0.258
Machinable Intra-BMC (Machinable Inter-BMC Benchmark)	\$ 0.430
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.655
Aggregate DSCF (DBMC Benchmark)	\$ 0.659
Aggregate DDU (DBMC Benchmark)	\$ 1.101
Window Service Unit Cost Savings Estimate	
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.302
NMO Additional Mail Processing Unit Cost Estimates	
Inter-BMC NMO (Machinable Inter-BMC Benchmark)	\$ 3.875
Intra-BMC NMO (Machinable Intra-BMC Benchmark)	\$ 2.655
DBMC NMO (Machinable DBMC Benchmark)	\$ 2.350
Oversize Additional Mail Processing Unit Cost Estimates	
Inter-BMC Oversize (Machinable Inter-BMC Benchmark)	\$ 12.830
Intra-BMC Oversize (Machinable Intra-BMC Benchmark)	\$ 9.535
DBMC Oversize (Machinable DBMC Benchmark)	\$ 5.929
DSCF Oversize (Machinable DSCF Benchmark)	\$ 3.736
DDU Oversize (Machinable DDU Benchmark)	\$ 0.488
Other Mail Processing Cost Estimates	
Aggregate OBMC Unit Cost Savings Estimate (Inter-BMC Benchmark)	\$ 1.231
NMO 3-Digit DSCF Additional Unit Cost Estimate (Aggregate DSCF Benchmark)	\$ 1.072
Pre-Barcode Unit Cost Savings Estimate (Non-Barcoded Parcel Benchmark)	\$ 0.031
PRS Cost Savings Estimates	
RBMC Machinable (Intra-BMC Machinable Benchmark)	\$ 1.544
RBMC Non-Machinable (Intra-BMC Non-Machinable Benchmark)	\$ 4.791
RBMC Oversize (Intra-BMC Oversize Benchmark)	\$ 14.001
RDU Machinable (Intra-BMC Machinable Benchmark)	\$ 2.891
RDU Non-Machinable (Intra-BMC Non-Machinable Benchmark)	\$ 8.413
RDU Oversize (Intra-BMC Oversize Benchmark)	\$ 24.818

TABLE 5: PRC BOUND PRINTED MATTER COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
DBMC Unit Cost Savings Estimate (Non Dropship Benchmark)	\$ 0.317
DSCF Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.445
DDU Unit Cost Savings Estimate (DSCF Benchmark)	\$ 0.155
Carrier Route Presort Unit Cost Savings Estimate (Basic Presort Benchmark)	\$ 0.111
Flats - Parcel Cost Differential	\$ 0.128

TABLE 6: PRC MEDIA MAIL / LIBRARY MAIL COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates	
Single-Piece	\$ 1.276
Basic Presort	\$ 0.959
5-Digit Presort	\$ 0.788
Mail Processing Unit Cost Savings Estimates	
Basic Presort (Single-Piece Benchmark)	\$ 0.317
5-Digit Presort (Single-Piece Benchmark)	\$ 0.488