

DOCKET SECTION

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

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Postal Rate and Fee Changes, 1997

Docket No. R97-1

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DIRECT TESTIMONY  
OF  
MARC A. SMITH  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE



1 study of electric utility load management and peak load pricing experiments. I am a  
2 member of the American Economic Association.

3  
4 My papers and publications are as follows:

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6 Evaluation of the Federal Energy Administration's Load Management and Rate Design  
7 Demonstration Projects, with Daniel Hill et al., Electric Power Research Institute, 1979.

8  
9 Analysis of Residential Response to Time-of-Day Prices, with Daniel Hill et al., Electric  
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39 Academic Publishers, 1997, pp. 42-64.

1 **PURPOSE OF TESTIMONY**

2 I am sponsoring the following library references as my testimony in this  
3 proceeding:

4 LR-H-77 Development of Piggyback and Related Factors

5

6 LR-H-106 Mail Processing Unit Costs by Shape

7

8 LR-H-128 Coverage Factors for Letter and Flat Models

9

10 LR-H-129 DPS Volumes and Savings by Subclass and Category

11

12 I hereby incorporate each of these documents into my testimony by reference.

13 The purpose associated with each library reference is as described below.

14 Additional information can be obtained from the specific library reference and  
15 the sources cited below.

16

17

18 **LR-H-77 Development of Piggyback and Related Factors**

19

20 This provides:

21

1. *piggyback factors by major function,*

22

2. mail processing operation specific piggyback factors and

23

3. premium pay factors.

24 A piggyback factor is the ratio of total volume variable costs to volume variable  
25 labor costs for a specific function (e.g. city carrier) or operation (e.g. OCR).

26 Total costs, as contained in the numerator, include the labor costs, supervisor,  
27 administrative, facility-related and equipment-related costs. Labor costs, in the  
28 denominator, comprise all non-supervisory, non-administrative labor cost

1 associated with the function or operation. Piggyback factors are employed in  
2 cost studies to augment labor cost estimates, to add the costs associated with  
3 supervisors and administration and facility-related and equipment-related costs.  
4 See, for example the testimony of witness Hatfield, USPS-T-25, at Appendix I,  
5 page 2.

6 In Part I of LR-H-77, piggyback factors (or ratios) are provided for major  
7 functions (e.g., mail processing, window service, city delivery, rural delivery,  
8 vehicle service drivers, and accounting) for each CRA line for the test year, and  
9 in some cases, the base year. In Part II, piggyback factors are provided for  
10 specific mail processing operations.

11 Premium pay factors reflect the premium pay adjustment as shown in the  
12 workpaper A-2, pages 1-4 of witness Alexandrovich, USPS-T-5. The calculation  
13 of these factors is shown in Part III. Premium pay factors are the ratio, for each  
14 CRA line item, of the mail processing labor costs after the premium pay  
15 adjustment to the mail processing labor costs prior to the premium pay  
16 adjustment. *These factors are used in cost studies to reflect the premium pay*  
17 *adjustment. See, for example, witness Hatfield, USPS-T-25, at Appendix I, page*  
18 *2.*

19  
20

1                   **LR-H-106            Mail Processing Unit Costs by Shape**

2  
3            This provides the test year benchmark costs. Benchmark costs are test  
4 year volume variable mail processing unit costs by shape and presort level.  
5 These costs include piggyback or indirect costs as well. These costs are  
6 provided by cost pool and are used by witnesses Daniel, USPS-T-29, Hatfield,  
7 USPS-T-25, and Seckar, USPS-T-26, to apply the CRA adjustment, which is  
8 used to reconcile model costs to the CRA. For discussions of this application of  
9 the benchmark costs see witness Hatfield, USPS-T-25, at pages 10-11 and  
10 Appendix V and also witness Seckar, USPS-T-26, at pages 23 to 25.

11            The unit cost for First-Class single piece bulk metered letters is also  
12 provided in support of witness Fronk, USPS-T-32. In addition, the base year  
13 benchmark costs are provided for use in the mail volume mix adjustment in LR-  
14 H-126 in support of witness Patelunas, USPS-T-15.

15  
16  
17                   **LR-H-128    Coverage Factors for Letter and Flat Models**

18            This provides the coverage factors used in letters, cards, and flats mail  
19 processing cost models as developed by witnesses Daniel, USPS-T-29, Hatfield,  
20 USPS-T-25, and Seckar, USPS-T-26. For descriptions of the coverage factors  
21 and their application, see witness Hatfield, USPS-T-25, at page 17 and  
22 Appendix I, pages 10 to 12 and Appendix IV and also witness Seckar, USPS-T-  
23 26, at pages 26 to 27.

1           **LR-H-129     DPS Volumes and Savings by Subclass and Category**  
2  
3

4           This provides inputs for numerous witnesses as discussed below. First,  
5 page I-1 provides the city carrier DPS savings distribution key for FY97 and  
6 FY98 used by witness Patelunas, USPS-T-15 to distribute DPS savings.

7           Second, page I-10 provides the budgeted DPS savings for FY94 to FY96.  
8 This is used by witness Hume, USPS-T-18, in order to account for the current  
9 level of DPS savings in developing test year city carrier letter delivery unit costs  
10 by rate category. See witness Hume's testimony at pages 11 to 13.

11  
12           Third, pages I-11 to I-12 provide the average FY95 DPS percentages by  
13 CRA line item for First-Class and third-class. This is based on the MC95-1 and  
14 MC96-2 letter modeling work. This is used by witness Alexandrovich, USPS-T-  
15 5, as an input for the distribution of DPS savings in developing the FY96 Base  
16 Year rural carrier costs in his Workpaper B-10.

17  
18           Fourth, pages II-1 and II-2 provide FY98 city carrier DPS percentages by  
19 rate category. This is also used by witness Hume, USPS-T-18, in incorporating  
20 DPS savings in test year city carrier letter delivery unit costs by rate category .

21  
22           Finally pages II-3 to II-9 provide a shape breakdown of the FY98 volume  
23 forecast by witness Tolley, USPS-T-6, for First-Class and Standard A. These  
24 volumes are used by witnesses Hatfield, USPS-T-25, Daniel, USPS-T-29 and

1 Seckar, USPS-T-26, to reconcile the model costs with the CRA benchmark  
2 costs. These volumes are also an input into the calculation of the CRA  
3 benchmark unit costs as done in LR-H-106.

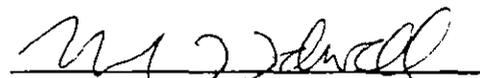
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## CERTIFICATE OF SERVICE

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.

  
Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
October 17, 1997

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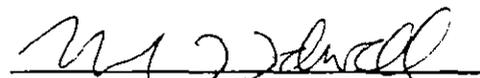
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