

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY OF
SCOTT J. DAVIS
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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SUPPORTING DOCUMENTATION

Attachment 1 - Roadmap Testimony Quick Reference Guide

Attachment 2 - Postal Testimony Flowchart

DIRECT TESTIMONY
OF
SCOTT J. DAVIS

AUTOBIOGRAPHICAL SKETCH

1 My name is Scott J. Davis. I am a Strategic Planning Specialist in the Office of
2 Strategic Planning for the U.S. Postal Service. In this role, I helped coordinate the
3 *Strategic Transformation Plan: 2006-2010* and the *2005 Comprehensive Statement*
4 *on Postal Operations*. I also serve as a functional liaison to several organizations
5 including the Law Department, Government Relations, and Intelligent Mail and
6 Address Quality. At present I am transitioning from my position in Strategic Planning
7 to a position in Operations in Merrifield, Virginia. At the Postal Service, I have held a
8 variety of positions. As an economist in Finance, I developed cost studies and
9 testified in the R2000-1 omnibus rate case. As a business evaluation analyst in
10 Technology, I evaluated business proposals and plans for eBusiness initiatives. As a
11 program manager in Information Technology, I developed and managed online
12 training and finance programs. Prior to joining the Postal Service, I worked as a staff
13 accountant at Reston Hospital Center and interned at Freddie Mac.

14 I received a BA in Economics from Duke University in 1993, an MBA from the
15 College of William and Mary in 1998, and a certificate in Technology Leadership
16 from the University of Virginia in 2003. I also graduated from the Postal Service's
17 Advanced Leadership Program in 2003.

1

PURPOSE AND SCOPE OF TESTIMONY

2 The Postal Service Request seeks a recommended decision from the Postal Rate
3 Commission on proposed changes in rates, fees, and classifications.

4 The purpose of this testimony is to provide an overview of the filing, in accordance
5 with the requirements of Rule 53(b) of the Commission's Rules of Practice and
6 Procedure. Specifically, I identify the subject matter of each witness's testimony,
7 explain how the testimonies of all witnesses interrelate, and describe changes in
8 cost methodology, volume estimation, or rate design, as compared to the manner in
9 which they were calculated by the Commission to develop recommended rates and
10 fees in the most recent general rate proceeding. I also identify, with reference to
11 appropriate testimony, each witness responsible for addressing any material
12 methodological change.

13 Similar to the R2005-1 roadmap testimony of witness Alenier, my testimony consists
14 of four sections. Section 1 describes how to use the roadmap testimony to navigate
15 the rate case. Section 2 provides a generic discussion of functional areas and data
16 flows. Section 3 describes each witness's testimony and the interrelationships
17 among testimonies within the context of functional areas. Section 4 describes for
18 each witness changes in methodology since the last omnibus rate case.
19 Attachments 1 and 2 contain a "Quick Reference Guide" and "Functional Data
20 Flows," respectively.

1 **Section 1: USING THE ROADMAP TESTIMONY TO NAVIGATE THE**
2 **POSTAL RATE CASE FILING**

3 The “Roadmap Quick Reference Guide,” included as Attachment 1 to this testimony,
4 provides an easy way to navigate the Postal Service’s direct case. The Guide
5 summarizes test year volumes, costs, revenues, cost coverages, and percent rate
6 changes by subclass. It lists the major tables and charts presented in the Request
7 and provides tables which list postal testimony by witness name, by witness number,
8 and by function. Attachment 2 provides a generalized flow diagram of the overall
9 process.

10 **Section 2: GENERIC DISCUSSION OF POSTAL RATE FILINGS**

11 The structure of the Postal Service’s direct case in an omnibus proceeding, and the
12 interrelationships among testimonies, are primarily a function of the necessary
13 components. While the number of testimonies and witness identities may vary
14 among cases, the core components tend to be quite stable over time.

15 Functional components in rough order of their sequence in testimony numbers are:

16 Data Systems
17 Revenue Requirement
18 Volumes
19 Base Year Costs
20 Roll-Forward
21 Attributable Cost Studies
22 Special Studies
23 Rate Policy
24 Rate Design
25 Operations

1 The foundation of any omnibus case is recent financial and operating information.
2 This information is a necessary component of any large business. Accounting
3 information, for example, would exist regardless of the need for an omnibus rate
4 case filing. Data systems witnesses, however, describe systems that augment basic
5 business information to provide necessary inputs for the rate case.

6 Descriptions of these data collection systems constitute the first subset of rate case
7 testimonies, that of the data systems witnesses. The purpose of these testimonies
8 is to explain the design and operation of the data systems that provide the
9 informational foundation of a rate case filing. These systems include both
10 revenue/volume and cost measurement. Any changes in data collection or
11 estimation methodology since the last omnibus rate case will be described in these
12 testimonies.

13 These systems augment accounting and related information to produce the Cost &
14 Revenue Analysis, or CRA. The CRA provides cost, revenue and volume
15 information for the most recent fiscal year, FY 2005, in total and by mail category.

16 The development of this document, and its supporting segments and components, is
17 described in detail in the Summary Description of USPS Development of Cost by
18 Segment and Component, FY 2005, filed as USPS-LR-L-1. Generally, the analytical
19 underpinning of these documents can be determined by reference to the most recent
20 omnibus rate case. The incremental cost witness develops incremental costs
21 displayed in the CRA.

1 The next group of witnesses, who rely on the inputs to this point, are the costing
2 witnesses. Most of the CRA costing witnesses present testimony regarding analysis
3 of a particular cost segment or group of related segments. These analyses
4 generally modify the fiscal year information described in the fiscal year CRA. The
5 results for those cost segments which are the subjects of testimony are provided to a
6 base year CRA costing witness. The testimony and workpapers of the base year
7 witness show base year costs for all cost segments and the distribution of the
8 volume-variable portion of those costs to subclasses and special services. In other
9 words, base year costs are generally fiscal year costs adjusted by new studies. In
10 this case, however, the results of all the new studies were incorporated into the fiscal
11 year CRA, and thus there are no differences between the fiscal year and base year
12 CRAs.

13 The next step in the ratemaking process is to project from historical data into a future
14 period, known as the test year, chosen for purposes of comparing expected
15 revenues and costs. Critical to this process is the ability to forecast mail volumes,
16 which is the province of the volumes witnesses. The volume forecasting witnesses
17 examine historical information to determine the factors which best explain past
18 trends in mail volumes for each subclass, and then use that demand analysis
19 research as the basis for forecasting trends in mail volumes between the base year
20 and the test year. Volume witnesses also provide information that assists in the
21 determination of the difference in revenues and costs between “before” and “after”

1 rates. Finally, a portion of the results of the demand analysis (e.g., price elasticities
2 of demand) play a role in the pricing process. Since volume levels affect both costs
3 and revenues, the volume forecasts provide important inputs for a wide variety of
4 downstream witnesses.

5 The revenue requirement witness presents a host of financial and accounting
6 information that will be incorporated into the projection of test year expenses. This
7 witness provides information on a number of discrete elements that affect test year
8 estimates. Cost level changes, both personnel and non-personnel, have a major
9 impact. Mail volume projections, of course, affect revenue and expense forecasts.
10 Non-volume workload, such as changes in city carrier deliveries, is a factor. Other
11 factors are changes in workday components, cost reduction programs, other
12 programs, corporatewide activities (e.g., Headquarters staff), servicewide costs (for
13 example, annuitant health benefits), workyear mix adjustments (such as proportions
14 of overtime) and final adjustments (like Negotiated Service Agreement effects).

15 The revenue requirement witness works very closely with the rollforward witness.
16 The rollforward witness uses volume forecasting and revenue requirement inputs, to
17 roll historical base year expenses forward to projected test year expenses. The
18 rollforward witness presents test year costs by subclass of mail and special service.
19 The rollforward witness presents both before-rates and after-rates versions of test
20 year costs.

1 The before-rates costs, provided in the rollforward witness testimony, are relied upon
2 by rate level, special study and rate design witnesses. For incremental costs, the
3 incremental cost witness applies an analysis comparable to the rollforward exercise
4 to base year incremental costs, thereby producing test year estimates of incremental
5 costs for each subclass and service. Another category of witness contributing to the
6 revenue requirement and rollforward efforts are the operations witnesses, who
7 describe changes in the operating environment, including new equipment and new
8 programs, which are expected to have an effect on test year expenses.

9 Once before-rates test year revenues, volumes and costs are produced, the
10 magnitude of the revenue shortfall is passed to the rate policy witness, sometimes
11 also referred to as the rate level witness. This witness, along with others in the rate
12 design process, establish rates to conform with §3622(b) of title 39.

13 The pricing process normally has two major steps. The first step is performed by the
14 rate policy witness. This witness examines each subclass and service, and, in light
15 of the total pool of institutional costs and the magnitude of the systemwide
16 percentage rate increase required, determines what share of the institutional cost
17 burden seems most appropriate for that product when balanced against the subclass
18 percentage rate increase necessary to achieve it. The outputs of this analysis are
19 target cost coverages for each subclass and service.

20 In the second step of the pricing process, the target cost coverages are passed onto
21 the rate design witnesses, whose responsibility is then to design rates which meet

1 assigned targets. The subclass targets are met by blending different rate changes
2 for various rate categories, workshare discounts, and rate elements within the
3 subclass. In order to effectively do this, rate design witnesses rely on special
4 studies. The special study witnesses provide analyses of costing issues below the
5 subclass level. For example, within a subclass, the CRA does not identify the
6 amount of costs avoided by particular kinds of mailer worksharing. Since such
7 avoided cost information is necessary for rate design witnesses to propose
8 appropriate workshare discounts within subclasses, special study witnesses conduct
9 analyses to provide that type of information, and present the results in their
10 testimonies.

11 In addition to proposing specific rates, rate design witnesses also present and
12 explain any proposed classification changes, and incorporate such classification
13 changes into their proposed rate design.

14 In summary, data systems augment accounting information to produce a fiscal year.
15 Cost studies modify that fiscal year to establish a base year. Forecasts of various
16 types, gathered by the revenue requirement witness, are passed to the roll-forward
17 witness, who produces an initial test year. The rate level witness uses that
18 information to guide the rate design witnesses, who also may rely on special studies
19 to design rates. The rate design results are used to create Test Year After Rates to
20 yield appropriate revenues and costs. See Appendix 1, "Roadmap Quick Reference
21 Guide."

1 **Section 3: OVERVIEW, PURPOSE, INTERRELATIONSHIPS OF TESTIMONY**

2 **I. Purpose of Omnibus Rate Case**

3 The Postal Service Request in Docket No. R2006-1 seeks a recommended decision
4 on proposed changes in rates of postage and fees. As explained by witness
5 Loutsch, the Postal Service projects that, at existing rates, it will incur a net revenue
6 deficiency of \$ 5.874 billion in fiscal year 2008, the proposed test year (USPS-T-6).

7 To eliminate that projected deficiency, the Postal Service is requesting an increase
8 in rates and fees sufficient to generate additional revenues of \$ 3.983 billion. Exhibit
9 USPS-6A shows that if our proposals are implemented, test year revenue deficiency
10 would be \$ 0.8 million. The rate and fee proposals entail a systemwide average
11 increase of 8.5 percent. To support its proposals, the Postal Service has submitted
12 the testimony and exhibits of 41 witnesses, encompassing 47 testimonies, and 133
13 library references.

14 The remainder of this section identifies, for each functional area, respective
15 testimonies and their interrelationships with other testimonies. Included as
16 Attachment 2 to this roadmap testimony is a spreadsheet flowchart showing data
17 flows among functional areas.

1 **II. Data Systems**

2

3 The Postal Service's revenue and cost accounting systems are not generally
 4 designed to meet the requirements for rate cases. As a result, the Postal Service
 5 operates a number of revenue and cost systems that augment accounting
 6 information to produce mail category information necessary to meet the
 7 requirements of rate and classification cases.

8

9 One category of systems begins with accounting information and applies estimation
 10 procedures to produce revenue, piece and weight information by mail category.

11 Witness Pafford, in USPS T-3, provides an explanation of these systems.

12 Accounting information provides a foundation for his work. There are a variety of
 13 systems and subsystems that develop Revenue, Pieces and Weight information, as
 14 well as ODIS information.

15

16 Witnesses Utilizing Data Systems (ODIS/RPW) Data Testimony
 17 USPS-T-3

Witness	Witness Number	Data/Information Provided
Thress	USPS-T-7	▪ RPW, ODIS and Billing Determinant Data
Milanovic	USPS-T-9	▪ RPW/ODIS Data
Smith	USPS-T-13	▪ ODIS volumes by shape for Standard regular
Loetscher	USPS-T-28	▪ RPW Data
Kaneer	USPS-T-41	▪ PO Box RPW data

18

19 A second category of data systems measures costs. Witness Czigler (IOCS),
 20 witness Hunter (TRACS) and witnesses Harahush and Riddle (CCS) describe these

1 systems. The In-Office Cost System estimates labor costs by activity and mail
 2 category for employees in most postal facilities. Many indirect, or piggyback costs,
 3 also depend on IOCS results. The Transportation Cost System estimates capacity
 4 utilization for certain transport modes and proportions of mail by category for a
 5 variety of modes. Piggybacks on this data are very limited. The Carrier Cost
 6 System has two components, the Rural Carrier Cost System and the City Carrier
 7 Cost System. In each case estimated proportions of mail by category assist in the
 8 distribution of attributable and certain incremental costs. Other costs are
 9 piggybacked on these results.

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Witnesses Utilizing IOCS Data Testimony
 USPS-T-1

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ IOCS data
Van-Ty-Smith	USPS-T-11	▪ Labor Cost Pool Information
Smith	USPS-T-13	▪ Labor cost by equipment type
Page	USPS-T-23	▪ Labor cost information
Kelley	USPS-T-30	▪ Carrier labor cost information
Bozzo	USPS-T-46	▪ IOCS data

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Witnesses Utilizing TRACS Data Testimony
 USPS-T-2

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ Transportation Cost data
Kelley	USPS-T-15	▪ Transportation Cost data

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 17
 18

Witnesses Utilizing CCS Data Testimony
 USPS-T-4 and USPS-T-5

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ City and Rural Carrier Street Data

Stevens	USPS-T-19	▪ Rural Carrier Street Data & Sample Files
Kelley	USPS-T-30	▪ City and Rural Carrier Data

1

2 Witness Bozzo, USPS-T-46, describes the design process for the In-Office Cost
3 System (IOCS) data collection instrument implemented at the start of FY 2005.

4

Input for IOCS Redesign
USPS-T-46

5

Witness	Witness Number	Data/Information Provided
Czigler	USPS-T-1	▪ IOCS data
Van-Ty-Smith	USPS-T-11	▪ BY05 mail processing costs by cost pool and subclass

6

7 Overall, these elements provide the necessary inputs to create the FY 2005 Cost &
8 Revenue Analysis, or CRA.

9

10 **III. Cost Studies**

11

12 Cost studies modify previous approaches to create the base year (2005). Cost
13 studies cover a variety of functional areas: mail processing (witnesses Van-Ty-
14 Smith, USPS-T-11 and Bozzo, USPS-T-12), facility costs for mail processing
15 (witness Smith, USPS-T-13), carrier/transportation costs (witness Bradley, USPS-T-
16 14), transportation costs (witness Kelley, USPS-T-15), Priority transportation
17 distance costs (witness Nash, USPS-T-16), window costing (witness Bradley, USPS-
18 T-17), incremental costs (witness Pifer, USPS-T-18), and rural carrier costs (witness
19 Stevens, USPS-T-19).

20

1 Updates to mail processing variabilities and to the subclass distribution of volume-
 2 variable mail processing labor costs, affecting cost segment 3, Mail Processing, are
 3 presented by witnesses Van-Ty-Smith (USPS-T-11) and Bozzo (USPS-T-12).

4

5 The purpose of witness Van-Ty-Smith's testimony (USPS-T-11) is to document the
 6 procedures by which the Postal Service proposes to create cost pools for mail
 7 processing operations, and to distribute such costs to mail classes, subclasses and
 8 rate categories. She also documents additional analyses of IOCS data that were the
 9 sources of inputs for the Base Year CRA or for other cost studies. The mail
 10 processing volume-variable costs by cost pool are provided in USPS LR-L-55.

11
 12

Input for Mail Processing Costs
 USPS-T-11

Witness	Witness Number	Data/Information Provided
Czigler	USPS-T-1	▪ Labor Cost Pool Information
Loutsch	USPS-T-6	▪ Productive hourly rates for the Base Year and Test Year in USPS-LR-L-50
Bozzo	USPS-T-12	▪ Econometric volume-variability factors

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Witnesses Utilizing Mail Processing Costs Study Results
 USPS-T-11

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ CRA-level volume-variable costs
Waterbury	USPS-T-10	▪ Selected volume variabilities and distribution keys
Smith	USPS-T-13	▪ Volume-variable costs by shape for selected classes of mail
Pifer	USPS-T-18	▪ Volume-variable costs by cost pool in USPS-LR-L-55
Miller	USPS-T-20	▪ Volume-variable costs in USPS-LR-L-55
Miller	USPS-T-21	▪ Volume-variable costs in USPS-LR-L-55
Abdirahman	USPS-T-22	▪ Volume-variable costs in USPS-LR- L-55
Page	USPS-T-23	▪ Volume-variable costs in USPS-LR- L-55

Mayes	USPS-T-25	▪ Volume-variable costs in USPS-LR- L-55
Cutting	USPS-T-26	▪ Volume-variable costs in USPS-LR- L-55
Talmo	USPS-T-27	▪ Volume-variable costs in USPS-LR- L-55
Bozzo	USPS-T-46	▪ BY05 mail processing costs by cost pool and subclass

1

2 Within cost segment 3 (Clerks and Mailhandlers), witness Bozzo (USPS T-12)

3 estimates variability levels for the labor costs incurred in most mail distribution

4 operations on the basis of econometric regressions. His variabilities are applied by

5 witness Van-Ty Smith, and the resulting costs are inputs to the B workpapers of

6 witness Milanovic in USPS LR-L-57, which describe the development of the

7 Segment 3 inputs to the base year CRA and roll forward model. The Postal

8 Service's proposed attribution of mail processing costs to subclasses is presented in

9 USPS LR-L-55.

10

Witnesses Utilizing Mail Processing Econometric Study Results
USPS-T-12

11

Witness	Witness Number	Data/Information Provided
Van-Ty-Smith	USPS-T-11	▪ Econometric volume-variability factors
Miller	USPS-T-20 & USPS-T-21	▪ MODS productivity data
Abdirahman	USPS-T-22	▪ MODS productivity data

12

13 Witness Smith (USPS-T-13) provides the methodology and inputs necessary to

14 determine the volume variable equipment and facility-related costs by subclass for

15 the Base Year in cost segments 11, 15, 16 and 20. Also, he provides piggyback

16 factors which are used to incorporate indirect costs into the cost avoidance

17 estimates that support worksharing discounts (as well as to compute final

1 adjustments). Another contribution of his testimony is the calculation of labor and
 2 indirect mail processing unit costs by shape, by cost pool.

3

4 Witnesses Providing Input to Mail Processing Cost and Facility Testimony
 5 USPS-T-13

Witness	Witness Number	Data/Information Provided
Czigler	USPS-T-1	<ul style="list-style-type: none"> ▪ Labor cost by equipment type
Pafford	USPS-T-3	<ul style="list-style-type: none"> ▪ ODIS volumes by shape for Standard regular
Loutsch	USPS-T-6	<ul style="list-style-type: none"> ▪ Projected growth for facility space, depreciation and cost levels
Thress	USPS-T-7	<ul style="list-style-type: none"> ▪ Volume forecasts
Milanovic	USPS-T-9	<ul style="list-style-type: none"> ▪ Base Year costs
Waterbury	USPS-T-10	<ul style="list-style-type: none"> ▪ Test Year costs
Van-Ty-Smith	USPS-T-11	<ul style="list-style-type: none"> ▪ Labor costs by shape and cost pool ▪ Premium pay factors ▪ Crosswalk calculations
Bradley	USPS-T-17	<ul style="list-style-type: none"> ▪ Window Service Costs
Page	USPS-T-23	<ul style="list-style-type: none"> ▪ Caller Service Costs
Loetscher	USPS-T-28	<ul style="list-style-type: none"> ▪ Volumes by shape

6

7 Witnesses Utilizing Mail Processing, Facility Study Information
 8 USPS-T-13

Witness	Witness Number	Data/Information Provided
Loutsch	USPS-T-6	<ul style="list-style-type: none"> ▪ Final adjustment piggyback factors
Milanovic	USPS-T-9	<ul style="list-style-type: none"> ▪ Facility and equipment cost information
Waterbury	USPS-T-10	<ul style="list-style-type: none"> ▪ Distribution of Cost Reductions ▪ Equipment and facility cost information
Pifer	USPS-T-18	<ul style="list-style-type: none"> ▪ Equipment & space-related cost pools & piggyback ratios for final adjustments
Miller	USPS-T-20 USPS-T-21	<ul style="list-style-type: none"> ▪ Piggyback factors and mail processing ▪ Shape and cost pool information
Abdirahman	USPS-T-22	<ul style="list-style-type: none"> ▪ Piggyback factors and mail processing ▪ Shape and cost pool information
Page	USPS-T-23	<ul style="list-style-type: none"> ▪ Piggyback factors and mail processing ▪ Shape and cost pool information

Mayes	USPS-T-25	▪ Piggyback factors
Cutting	USPS-T-26	▪ Piggyback factors
Talmo	USPS-T-27	▪ Piggyback factors and mail processing shape and cost pool information
Kelley	USPS-T-30	▪ Mail processing and piggyback information in USPS-LR-L-52 and USPS-LR-L-53, respectively ▪ Parcel adjustment information
Taufique	USPS-T-32	▪ Mail Processing Costs by Shape in USPS-LR-L-53
Kaneer	USPS-T-41	▪ Caller Service costs

1

2 Witness Bradley (USPS-T-14) presents and reviews the costing issues associated
3 with calculating product costs in the Postal Service's air transportation networks. In
4 addition, he provides the reason the Postal Service could not revise its treatment of
5 city carrier costs for this docket.

6

Witnesses Providing Input for Carrier Study / Transportation
USPS-T-14

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Witness	Witness Number	Data/Information Provided
Pajunas	USPS-T-45	▪ Description of USPS air networks

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Witnesses Utilizing Carrier Study / Transportation
USPS-T-14

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Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ Carrier Cost Study and transportation inputs

11

12 Witness Kelley (USPS-T-15) describes methodologies used in the following
13 transportation costing areas: FedEx DayTurn variability model, calculation of
14 distance-related transportation costs, calculation of Alaska highway costs, and the
15 Alaska Air adjustment.

Witnesses Providing Input for Transportation Costs
USPS-T-15

Witness	Witness Number	Data/Information Provided
Hunter	USPS-T-2	▪ Transportation Cost data
Milanovic	USPS-T-9	▪ USPS-LR-L-5 – CRA Workpapers
Pajunas	USPS-T-45	▪ Transportation Costing

Witnesses Utilizing Transportation Costs
USPS-T-15

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ FedEx DayTurn Variability ▪ Alaska Highway Costs – USPS-LR-L-40
Waterbury	USPS-T-10	▪ Alaska Highway Costs USPS-LR-L-40
Scherer	USPS-T-33	▪ Distance Related Transportation Costs USPS-LR-L-39
Berkeley	USPS-T-34	▪ Distance Related Transportation Costs USPS-LR-L-39
Tang	USPS-T-35	▪ Distance Related Transportation Costs USPS-LR-L-39

Witness Nash (USPS-T-16) provides information related to transportation costs.

There are three subjects discussed in his testimony. First, witness Nash updates the methodology and calculation of the weight distribution and average haul by zone for Priority Mail moved on air transportation. The calculated weight distribution and average haul by zone are provided to witness Scherer (USPS-T-33) to distribute distance and non-distance related transportation costs. Second, witness Nash estimates the share of highway Priority Mail that interconnects with Air transportation. The estimated percentage is provided to witness Scherer (USPS-T-33) to adjust distance related transportation cost across zones. Third, witness Nash calculates the Intra-SCF Priority Mail Percentage in Zone 1. The calculated percentage is provided to witness Scherer (USPS-T-33) to adjust distance related highway transportation cost in zone 1.

Witnesses Utilizing Priority Transportation Distance Costs
USPS-T-16

Witness	Witness Number	Data/Information Provided
Scherer	USPS-T-33	<ul style="list-style-type: none"> ▪ Priority Mail weight and average haul by zone ▪ Percentage of Priority Mail highway pound-mile in connection with air travel ▪ Percentage of intra-SCF Priority Mail weight in zone 1

In his second R2006-1 testimony, witness Bradley (USPS-T-17) discusses the analytical basis for calculating window service costs and presents an update to the computational algorithm for window service. The purpose of this testimony is to update and refine the established methodology for calculating transaction time variabilities. He also produces new variabilities based upon an updated transaction time study.

Input for Window Costing Testimony
USPS-T-17

Witness	Witness Number	Data/Information Provided
Nieto	USPS-T-24	<ul style="list-style-type: none"> ▪ Transaction Time Study data set

Witnesses Utilizing Window Costing Testimony
USPS-T-17

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	<ul style="list-style-type: none"> ▪ Window service variability information
Smith	USPS-T-13	<ul style="list-style-type: none"> ▪ Window Service Costs

Witness Pifer (USPS-T-18) addresses incremental costs. His testimony presents incremental cost estimates for base year 2005 and test year 2008. Incremental costs are developed for each subclass and special service, as well as groups of

1 subclasses. The procedures used to calculate incremental costs are the same as
 2 those used in Docket No. R2005-1 to calculate base year 2004 incremental costs.

3 Input for Incremental Costs Testimony
 4 USPS-T-18

Witness	Witness Number	Data/Information Provided
Thress	USPS-T-7	▪ Volume forecasts
Milanovic	USPS-T-9	▪ FY05 Base Year Costs ▪ Product Specific Cost Inputs
Waterbury	USPS-T-10	▪ Test Year costs & Roll-forward model inputs
Van-Ty-Smith	USPS-T-11	▪ Volume-variable costs by cost pool in USPS-LR-L-55
Smith	USPS-T-13	▪ Equipment & space-related cost pools & piggyback ratios for final adjustments
Page	USPS-T-23	▪ Test year final adjustment detail

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Witnesses Utilizing Incremental Costs Testimony
 USPS-T-18

Witness	Witness Number	Data/Information Provided
Loutsch	USPS-T-6	▪ Non-volume workload weighting
O'Hara	USPS-T-31	▪ Incremental cost estimates
Taufique	USPS-T-32	▪ Incremental cost estimates
Berkeley	USPS-T-34 & 39	▪ Incremental cost estimates
Tang	USPS-T-35	▪ Incremental cost estimates
Mitchum	USPS-T-40	▪ Incremental cost estimates

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11 Witness Stevens (USPS-T-19) details the studies of rural carrier costs. He sponsors
 12 library reference number USPS-LR-L-70. This library reference provides the rural
 13 carrier costing methodology in support of the base year witness Milanovic, USPS-T-
 14 9. The library reference also provides the data from the rural mail count that are
 15 used as an input to calculate the volume variability of rural carrier costs. Witness
 16 Stevens also calculates an estimate of the ratio of boxes time to miles time used by
 17 witness Loutsch.

Witnesses Providing Inputs to Rural Carrier Costs Testimony
USPS-T-19

Witness	Witness Number	Data/Information Provided
Riddle	USPS-T-5	▪ Rural Carrier Street Data & Sample Files
Loutsch	USPS-T-6	▪ Productive hourly wage rates

Witnesses Utilizing Rural Carrier Costs Testimony
USPS-T-19

Witness	Witness Number	Data/Information Provided
Milanovic	USPS-T-9	▪ Rural Carrier cost inputs

IV. Base Year

Witness Milanovic (USPS-T-9) presents the development of Base Year 2005 costs. A number of changes in the treatment of costs are introduced in this proceeding, resulting in differences between the Base Year 2004 Cost and Revenue Analysis (CRA) and Base Year 2005 costs. His testimony and related workpapers provide a brief overview of these changes and report their results. However, a more thorough treatment of these changes is addressed in the testimony of other witnesses.

Witnesses Providing Input for the Base Year Testimony
USPS-T-9

Witness	Witness Number	Data/Information Provided
Czigler	USPS-T-1	▪ IOCS data
Hunter	USPS-T-2	▪ Transportation Cost data
Pafford	USPS-T-3	▪ RPW/ODIS Data
Harahush	USPS-T-4	▪ City Carrier Street Data
Riddle	USPS-T-5	▪ Rural Carrier Street Data
Van-Ty-Smith	USPS-T-11	▪ Mail processing costs
Smith	USPS-T-13	▪ Facility and Equipment inputs

Bradley	USPS-T-14	▪ Carrier Cost Study and transportation inputs
Kelley	USPS-T-15	▪ Transportation costs
Bradley	USPS-T-17	▪ Window Service variability information
Stevens	USPS-T-19	▪ Rural Carrier cost inputs

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Witnesses Utilizing Base Year Testimony
USPS-T-9

Witness	Witness Number	Data/Information Provided
Loutsch	USPS-T-6	▪ Reallocated Trial Balance account reallocations to cost component
Waterbury	USPS-T-10	▪ Base Year information
Smith	USPS-T-13	▪ Base Year information
Kelley	USPS-T-15	▪ Cost segment and component information in USPS-LR-L-5
Pifer	USPS-T-18	▪ Base Year costs in USPS-LR-L-4 ▪ Product Specific costs in USPS-LR-L-57
Miller	USPS-T-21	▪ Base Year cost data in USPS-LR-L-5
Page	USPS-T-23	▪ Base Year costs in USPS LR-L-4 and USPS-LR-L-5
Mayes	USPS-T-25	▪ Base year transportation costs in USPS-LR-L-5
Talmo	USPS-T-27	▪ Base year CRA costs in USPS-LR-L-5
Kelley	USPS-T-30	▪ Cost segment and component information in USPS-LR-L-5

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6 Witness Pifer (USPS-T-19) develops incremental costs for Fiscal Year 2005, the
7 base year and the test year. There is no PRC version of Incremental Costs.

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V. Volume Forecasts

Witness Thress's (USPS-T-7) testimony models the demand for domestic mail volume, identifies and quantifies factors that affect mail volumes, and projects these factors through the Test Year for the purposes of developing a set of volume forecasts. The work presented in his testimony is closely connected to and is best read in concert with the testimony of witness Bernstein (USPS-T-8).

Witness Bernstein's (USPS-T-8) testimony discusses recent declines in First-Class mail volumes. To aid in this discussion, several data sources are examined, including postal volumes, demographic information, and materials presented in the annual Household Diary Studies.

Witness Providing Input to Volume Testimony
USPS-T-7

Witness	Witness Number	Data/Information Provided
Pafford	USPS-T-3	▪ RPW, ODIS and Billing Determinant data

Witnesses Utilizing Output from Volume Testimony
USPS-T-7

Witness	Witness Number	Data/Information Provided
Loutsch	USPS-T-6	▪ Volume forecasts
Bernstein	USPS-T-8	▪ Volume forecasts
Waterbury	USPS-T-10	▪ Volume forecasts
Smith	USPS-T-13	▪ Volume forecasts
Pifer	USPS-T-18	▪ Volume forecasts
Page	USPS-T-23	▪ Volume forecasts
Mayes	USPS-T-25	▪ Volume forecasts
Cutting	USPS-T-26	▪ Volume forecasts
O'Hara	USPS-T-31	▪ Volume forecasts
Taufique	USPS-T-32	▪ Volume forecasts
Scherer	USPS-T-33	▪ Volume forecasts

Berkeley	USPS-T-34	▪ Volume forecasts
Tang	USPS-T-35	▪ Volume forecasts
Kiefer	USPS-T-36	▪ Volume forecasts
	USPS-T-37	▪ Volume forecasts
Yeh	USPS-T-38	▪ Volume forecasts
Berkeley	USPS-T-39	▪ Volume forecasts
Mitchum	USPS-T-40	▪ Volume forecasts

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Witness Providing Input to Volume Testimony
USPS-T-8

Witness	Witness Number	Data/Information Provided
Thress	USPS-T-7	▪ Volume forecasts

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5 **VI. Operations**

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7 Witnesses McCrery, Hintenach, Coombs, and Pajunas present testimony relating to
8 postal operations. Witness McCrery (USPS-T-42) provides operational support for
9 various elements of the Postal Service's proposals. He provides an overview of the
10 Postal Service's processing operations for the current environment, the test year,
11 and beyond. He discusses the relationship between long term volume changes and
12 workhour changes in support of witness Bozzo's (USPS-T-12) calculation of volume
13 variabilities. He also sponsors Cost Reduction Program information, detailing the
14 programs and initiatives that are expected to produce operational savings through
15 the test year.

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Witnesses Utilizing Operations Testimony
USPS-T-42

Witness	Witness Number	Data/Information Provided
Loutsch	USPS-T-6	▪ Cost reduction program workhour savings and program costs included in USPS Library Reference L-49, Exhibit A,B, E, and F

Abdirahman	USPS-T-22	▪ RCR finalization rate and Remote Bar Code System (RBCS) leakage factor
O'Hara	USPS-T-31	▪ Current and planned TY operating environment

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2 Witness Hintenach (USPS-T-43) provides background operational information in
3 support of the Postal Service on the post office retail operations since the 1980's to
4 present. This testimony describes how retail operations have changed since the
5 1980's, including technological advancements such as the introduction of Automated
6 Postal Centers.

7

8 Witness Coombs (USPS-T-44) provides operational support regarding carriers for
9 various elements of the Postal Service's proposals in this docket. The testimony
10 describes how delivery processes will be impacted by the operational changes that
11 are currently expected to occur once Flat Sequencing Systems (FSS) is
12 implemented. She begins with a discussion on how these changes are expected to
13 impact delivery operations in the office and on the street. She also discusses the
14 operational effects of FSS on delivery unit workspaces and how savings from FSS
15 are expected to be realized.

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17 Witness Pajunas (USPS-T-45) provides information relative to the FedEx
18 transportation agreement that witness Bradley (USPS-T-14) relies upon in his
19 presentation and review of costing issues associated with calculating product costs
20 for those products transported in the Postal Service's air transportation networks,
21 and which witness Kelley (USPS-T-15) utilizes in that costing.

Witnesses Utilizing Operations Testimony
USPS-T-45

Witness	Witness Number	Data/Information Provided
Bradley	USPS-T-14	<ul style="list-style-type: none"> ▪ Information relative to the FedEx transportation agreement
Kelley	USPS-T-15	<ul style="list-style-type: none"> ▪ Transportation Costing

VII. Roll Forward

Witness Waterbury (USPS-T-10) presents the rollforward. She projects total accrued costs, and volume variable costs by subclass and service, at current rates for FY 2006 (first interim year) and FY 2007 (second interim year), and at current and proposed rates for Test Year 2008. In USPS-T-18, witness Pifer provides incremental costs by subclass Test Year 2008, both before- and after-rates.

Future-year costs are estimated by the rollforward model using the following process. Test year estimates of volume variable costs are developed by adjusting base year volume variable costs for the effects of (a) changes in cost level, (b) changes in volumes by category of mail or service, (c) changes in nonvolume workload, (d) cost reductions, and (e) other programs, between the base year and the test year. Test year estimates of costs which are not influenced by changes in volume are developed by adjusting base year costs for the effects of (a) changes in cost level, (b) changes in the number of workdays, (c) cost reductions, and (d) other programs, from the base year to the test year. The total of the aforementioned changes is adjusted for the impact of the workyear mix adjustment. The workyear

- 1 mix adjustment reflects the anticipated shifts in workload due to automation, and
- 2 refined scheduling and hiring practices.

3 Inputs to Rollforward Testimony
4 USPS-T-10

Witness	Witness Number	Library References	Data/Information Provided
Loutsch	USPS-T-6	USPS-LR-L-50 USPS-LR-L-49	<ul style="list-style-type: none"> ▪ Roll Forward Expense Factors ▪ Contingency Factor ▪ Cost Reductions and Other Programs
Thress	USPS-T-7	USPS-LR-L-66	<ul style="list-style-type: none"> ▪ Volume Forecasts
Milanovic	USPS-T-9	USPS-LR-L-4	<ul style="list-style-type: none"> ▪ Base Year Costs ▪ Base Year Distribution Keys
Van-Ty-Smith	USPS-T-11	USPS-LR-L-55	<ul style="list-style-type: none"> ▪ Mail Processing Distribution Keys ▪ Mail Processing Variability Factors
Smith	USPS-T-13	USPS-LR-L-54 USPS-LR-L-22	<ul style="list-style-type: none"> ▪ Equipment and Facility Factors ▪ Programs Distribution Keys ▪ Programs Variability Factors
Kelley	USPS-T-15	Not Applicable	<ul style="list-style-type: none"> ▪ Alaska Air Adjustment Factors
Page	USPS-T-23	USPS-LR-L-59	<ul style="list-style-type: none"> ▪ Final Adjustments

5 Witnesses Utilizing Rollforward Testimony
6 USPS-T-10
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Witness	Witness Number	Library References	Product
Loutsch	USPS-T-6	USPS-LR-L-50	<ul style="list-style-type: none"> ▪ Workyear Mix Adjustment ▪ Interest on Debt ▪ Profit & Loss (P & L)
Smith	USPS-T-13	USPS-LR-L-52 USPS-LR-L-53	<ul style="list-style-type: none"> ▪ Piggybacks ▪ Cost by Shape
Pifer	USPS-T-18	USPS-LR-L-72	<ul style="list-style-type: none"> ▪ Incremental Costs
Miller	USPS-T-21	USPS-LR-L-46	<ul style="list-style-type: none"> ▪ Test Year cost data
Page	USPS-T-23	USPS-LR-L-59	<ul style="list-style-type: none"> ▪ Final Adjustments
Mayes	USPS-T-25	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Test Year transportation costs
Cutting	USPS-T-26	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Test Year CRA costs
Talmo	USPS-T-27	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Test Year CRA costs
O'Hara	USPS-T-31	Not Applicable	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing
Taufique	USPS-T-32	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing
Scherer	USPS-T-33	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing
Berkeley	USPS-T-34	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing
Tang	USPS-T-35	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing
Kiefer	USPS-T-36	USPS-LR-L-7	<ul style="list-style-type: none"> ▪ Roll-Forward Costs for Rates / Pricing

