

USPS-T-2

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

PREMIUM FORWARDING SERVICE

Docket No. MC2007-3

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

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1 **AUTOBIOGRAPHICAL SKETCH**

2

3 My name is Abdulkadir M. Abdirahman. I have testified before the Postal
4 Rate Commission on four separate occasions. In Docket No. R2001-1, I testified
5 before the Commission on the costing of Special Services. In Docket No. R2005-
6 1, I testified on mail processing costs for letters and cards. In Docket No.
7 MC2005-1, I was the cost witness for the Premium Forwarding Service (PFS)
8 experiment. In Docket No. R2006-1, I testified before the Commission on the
9 mail processing costs for letters and cards, as well as Business Reply Mail costs.

10 I have been an economist for the Special Studies Division of Corporate
11 Financial Planning since 2001. I began working for the Postal Service in 1989 as
12 a letter carrier and later became a distribution and retail window clerk. In that
13 capacity, I was responsible for explaining and selling to postal customers a wide
14 variety of postal products.

15 In the private sector, I worked as an economic consultant for Amal Express
16 International, an export and import firm based in Dubai, United Arab Emirates. In
17 that capacity, I conducted market feasibility cost studies and developed labor
18 cost estimates concerning livestock exports. I have also performed consulting
19 work for the United Nations on issues related to peacekeeping deployments in
20 Africa.

21 I earned a Bachelor's Degree in Management from National Louis University
22 in Evanston, Illinois in 1990 and a Master's Degree in International Transactions
23 with a concentration in International Economics in 1996 from George Mason
24 University in Fairfax, Virginia.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of this testimony is to provide witness Dawson (USPS-T-3)
3 with cost data to support the Premium Forwarding Service (PFS) pricing
4 structure.

5
6 **II. GUIDE TO SUPPORTING DOCUMENTS**

7 An Appendix to this testimony provides my detailed cost analyses and
8 spreadsheets. I do not otherwise have any workpapers.

9 I relied upon the following Docket No. R2006-1 library references in
10 preparing my cost analyses: USPS LR-L-117, PRC Version/Volumes,
11 Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail, TY
12 2008; and USPS LR-L-61, Christensen Associates Study of Undeliverable-As-
13 Addressed Mail and Personal-Knowledge-Required Mail, FY 2004.

14
15 **III. BACKGROUND**

16 PFS is a reshipment service offered by the Postal Service on an
17 experimental basis. It is designed for customers who travel from their primary
18 addresses to temporary addresses for periods ranging from two weeks to one
19 year. PFS provides for the weekly reshipment of customers' mail, via Priority
20 Mail[®], from their primary addresses to temporary ones. Substantially all mail are
21 reshipped this way; however, mail requiring a signature or scan upon delivery,
22 and some packages, are reshipped separately, as described in witness Hope's
23 testimony (USPS-T-1). PFS customers may not make any simultaneous use of

1 any traditional forwarding option (temporary or permanent). Witness Hope
2 describes how PFS works in greater detail.

3

4 **IV. PFS COSTING METHODOLOGY**

5 I developed cost estimates based upon witness Hope's product definition,
6 and generally reflecting the analysis I developed for the PFS experiment. All of
7 the costs for PFS are volume variable. The cost analysis presented in this
8 testimony estimates the average unit cost for PFS. Costs are separated into two
9 cost categories: set-up costs and per-shipment costs.¹ The methodology used
10 for each cost category is described in more detail below.

11

12 **A. Set-up Costs**

13 Set-up costs are the one-time costs associated with a single customer's
14 enrollment and registration for PFS. Such costs include the processing of the
15 PFS customer application, the collection of fees, the creation of a PFS folder,
16 and the recording of customer information in the PFS Master Log. The PFS
17 costing model assumes that most of the set-up functions are performed by a
18 clerk, so clerk hourly costs are used.

19 When a customer completes a PFS application and presents it to the Post
20 Office from which mail to her permanent address is delivered, a clerk processes
21 the application by checking for accuracy and completeness, verifying the identity
22 of the applicant, confirming the start and end dates of PFS, and ensuring that the

¹ Witness Dawson presents the per-shipment costs related to the actual shipment to the customer. USPS-T-3, Attachment 1.

1 customer has no active forwarding order in effect. The processing of an
2 application is similar to the processing of a Post Office box application, given that
3 the same nature and quantity of information is required. Thus, the transaction
4 time for processing a Post Office box application serves as an excellent proxy.

5 After verifying an application, the clerk collects all fees, which the
6 customer prepays for the entire PFS service period. The clerk explains the
7 composition of the required sum and collects it. This process is similar to the
8 collection of postage due at a call window; therefore, the cost for collecting
9 postage due at a call window serves as a good proxy for the PFS prepayment
10 cost.

11 The final step in the set-up process is the creation of a PFS folder, and the
12 recording of customer information into the PFS Master Log. The clerk enters
13 each customer's reshipping information into a Master Log, which lists all of that
14 office's PFS customers. The cost of a clerk processing Change-of-Address
15 cards is used as a proxy for the cost of processing the Master Log, since the
16 amount of information entered by the clerk in both processes is similar.

17 The total one-time set-up costs, consisting of the sum of the three proxies
18 identified above, are estimated to be \$4.86 for each PFS customer. Page 2 of
19 the Appendix shows this calculation in detail, and also identifies the sources for
20 each of the proxy cost numbers.

1

2 **B. Per-Shipment Costs**

3 Per-shipment costs are the costs associated with mail separation,
4 repackaging, and dispatch. Generally, PFS activities are performed at the
5 delivery unit serving the customer's permanent address by the customer's
6 carrier, or a designated clerk. The PFS costing model conservatively assumes
7 that most of the per-shipment-related activities are performed by the carrier.

8 While a clerk may perform some of the in-office functions associated with the
9 preparation of PFS mail for shipment, the higher labor rates for carriers are used
10 for all activities because field site visits revealed that many of the activities are
11 performed by carriers, but also by a range of other postal personnel.

12 Per-shipment costs begin with mail separation. Throughout the week,
13 during the casing process, the carrier separates the PFS customer's mail and
14 holds it (sets it aside in a designated area) until it is reshipped. The cost of
15 separating the mail of a customer when mail is being held or forwarded within a
16 delivery unit is used as a proxy for the mail separation cost of PFS mail because
17 the activities are similar.

18 Once per week, the carrier gathers the PFS customer's held mail, places it
19 into and labels a Priority Mail box, Tyvek envelope or other Priority Mail
20 packaging, and enters it into the outgoing Priority Mail stream. The carrier then
21 updates the PFS Tracking Log. The PFS Tracking Log is used to inform the
22 carrier of the receipt of a PFS application and the initiation of PFS service, to
23 ensure that reshipments are processed and mailed every Wednesday, and to

1 record shipments sent. During field observations of the current experiment that
2 were conducted at small, medium, and large delivery units, I found that these
3 tasks take about three and one-half minutes per PFS customer.

4 The Postal Service provides and completes the necessary PFS address
5 labels, which are maintained with the PFS applications at a designated location
6 in a delivery unit. The cost of a carrier filling out one section of a Change-of
7 Address card is used as a proxy for the cost of completing the PFS label, given
8 that the quantity and nature of information involved are comparable.

9 The per-shipment costs, calculated by using the proxies and observations
10 described above, are estimated to be \$4.08, not including the mail processing
11 and delivery costs associated with reshipment. Please see the Appendix, page 3
12 for additional details.

13

14 **V. Conclusion**

15 I have estimated the costs for providing Premium Forwarding Service
16 Witness Dawson (USPS-T-3) proposes two fees, one for enrolling a customer
17 and the other for each PFS shipment. My cost estimates indicate that the former
18 costs \$4.86, and the latter \$4.08 (omitting costs for mail processing and delivery
19 that witness Dawson estimates). Cost elements and their sources are
20 documented in the Appendix to this testimony.

Premium Forwarding Service Cost Analysis Page 1

Summary of PFS Estimated Costs

Premium Forwarding Cost Estimates		
Set-Up Cost¹:	\$	4.856
Per-Shipment Cost²:	\$	4.076

¹ Premium Forwarding Service Cost Analysis, page 2.

² Premium Forwarding Service Cost Analysis, page 3.

Premium Forwarding Service Cost Analysis Page 2

One Time Set-Up Cost

Calculation of Unit Cost of Setting up Premium Forwarding Service

\$ 3.179	Labor Cost: Window Acceptance of Premium Forwarding Service Applications
0.106	Labor Cost: Clerk Collecting Fees and Postage
<u>1.570</u>	Labor Cost: Back Office Set-Up
\$ 4.856	Total Unit Cost Set-Up Cost

Labor Cost: Window Acceptance of Customer Request for Premium Forwarding Service Application

0.042	Labor Time (hours) ¹
\$ 38.850	Wage Rate for Window Service Clerk ²
1.1180	Overhead Cost Factor ³
1.244	Waiting Time Factor ⁴
<u>\$ 1.401</u>	Piggyback Factor for Window Service w/ PO Boxes ⁵
\$ 3.179	

Labor Cost: Clerk Collecting Fees and Postage

\$ 0.106	Collection of Postage Due at Call Window (Proxy) ⁶
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Labor Cost: Back Office Set-Up

\$ 1.570	PFS Back Office Set-Up ⁷ (Carrier checking over COA order and filling out 3982 used as proxy)
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Notes:

¹ 2005 Window Transaction Time Study for PO Boxes, USPS-LR-L-119, p. 160 (=151.2 sec. / 60 / 60)

² USPS-LR-L-55, Page 8

³ Docket No. R2006-1, USPS-T-9, B Work Papers, C/S 3, WS 3.2.1, column 4 (line 36) divided by column 3 (Line 36)

⁴ Docket No. R2006-1, USPS-T-9, B Work Papers, C/S 3, WS 3.2.1, column 5 (line 36) divided by column 3 (Line 36)

⁵ USPS-LR-L-98, Page 10

⁶ Docket No. R2006-1, USPS-LR-L-117, Table 3.34, Row 4 times 0.25.

⁷ Docket No. R2006-1, USPS-LR-L-61, Table 3.6, Row 9, adjusted for inflation to TY 2008, as shown on page 4 of this Appendix.

Premium Forwarding Service Cost Analysis Page 3

Per Shipment Cost

\$ 0.374	Labor Cost: Mail Separation
2.867	Labor Cost: Repackaging
0.785	Labor Cost: Carrier Filling out the Label
<u>0.050</u>	Label Cost
\$ 4.076	Total Per Shipment Cost

Labor Cost: Mail Separation

\$0.0623	Cost of Carrier Preparation of Forwarded and Hold Mail Used as Proxy ¹
<u>X 6</u>	Days per Week that Separations Occur
\$ 0.374	Total

Labor Cost: Repackaging

0.058	Labor Time (hours) ²
\$39.34	Wage Rate for Carrier ³
1.249	Piggyback Factor for City Carrier In Office ⁴
\$ 2.867	

\$ 0.785 Labor Cost: Carrier Filling out the Label⁵

Material Costs

\$ 0.05 Label Cost⁶

Notes:

¹ Docket No. R2006-1, USPS-LR-L-117, Table 3.4, Row 5.

² Special Studies Field Observation

³ USPS LR-L-50, pages 450 through 451

⁴ City carrier, in-office. USPS-LR-L-98, Page 10

⁵ Docket No. R2006-1, USPS-LR-L-61, Table 3.6, Row 9, adjusted for inflation to TY 2008, as shown on page 4 of this Appendix.
Half of the 3982 COA processing cost $\$1.570/2 = \0.785 .

⁶ USPS Packaging (Headquarters)

Premium Forwarding Service Cost Analysis Page 4

Cost Input Sheet

USPS
Escalation
Factor*

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	
Collection Postage Due-Wind. Serv. ¹					\$ 0.106	
Processing of COA Cost ²	\$ 1.342	\$ 1.396	\$ 1.452	\$ 1.510	\$ 1.570	4.0%
Carrier Preparation Cost ³					\$ 0.062	

¹ Docket No. R2006-1, USPS-LR-L-117, Table 3.34. Row 4 times 0.25.

² Docket No. R2006-1, USPS-LR-L-61, Table 3.6. Row 9 inflated to TY 2008 costs using the escalation factor.

³ Docket No. R2006-1, USPS-LR-L-117, Table 3.4. Row 5.

* USPS Escalation Factor = 4%, in accord with Docket No. MC2005-1