

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

Six-Day to Five Day Street Delivery
and Related Service Changes, 2010

Docket No. N2010-1

Library Reference USPS-LR-N2010-1/9

Highway Transportation Cost Savings

PREFACE

This is a Category 2 library reference that is sponsored by Postal Service Witness Bradley (USPS-T-6). It contains the documentation for calculation of cost savings for highway transportation. The Library Reference has two parts. The first part is this Microsoft Word (pdf) document that provides the explanation of the calculations. The second part contains the Microsoft Excel workbook that performs the calculations.

Calculating Highway Transportation Cost Savings

This library reference presents the calculations of highway transportation costs savings. There are separate calculations for purchased highway transportation, for highway box routes and for vehicle service drivers. All of the calculations are performed in the included Excel workbook entitled, "Highway Cost Savings Calculations.xlsx." The workbook has four worksheets, one for each of the types of transportation for which cost savings are calculated and a summary. Each of the worksheets is described below.

Purchased Highway Transportation

The worksheet that calculates these costs savings is entitled "HCR-Regular." The calculations start with the presentation of the baseline FY2009 Saturday and Sunday costs, by highway contract category, from Library Reference LR-N2010-1/x. Next, the anticipated reductions in transportation capacity caused by elimination Saturday delivery are presented. This is followed by the relevant capacity variabilities. The worksheet then calculates the Saturday and Sunday cost savings using this formula:

$$\text{Cost Savings}_t = s_t * [\% \Delta \text{CFM}] * \text{Baseline Cost}_t$$

This worksheet also presents the calculation of the capacity variabilities for the highway transportation portions of the Intra P&DC and Intra CSD contract categories.

Because these costs are contractor costs and not direct labor costs, there are no indirect costs associated with them. Thus, there are not indirect cost savings to calculate.

Highway Box Contracts

The worksheet that calculates these costs savings is entitled "HCR-Regular." The calculations start with the presentation of the baseline FY2009 Saturday costs, by highway contract category, from Library Reference LR-N2010-1/8. The worksheet then presents the Saturday costs under five-day delivery. (There will be no Saturday highway box contract service in a five-day environment so these costs go to zero.) The cost savings are then calculated by finding the route-related portion of the reduction in Saturday costs.

Because these costs are contractor costs and not direct labor costs, there are no indirect costs associated with them. Thus, there are not indirect cost savings to calculate.

Vehicle Service Drivers

The worksheet that calculates these cost savings is called "VSD." It starts with the baseline hours for VSD direct labor, administrative clerks and supervisor hours for FY2009 provided by witness Grossmann. These values were extracted from the Postal Service time and attendance system. The extracted hours for direct labor hours are slightly smaller than the actual FY2009 direct labor hours so an adjustment was made to reconcile all three types of hours to actual FY2009 costs. The adjusted hours serve as the baseline for the cost savings calculations.

The baseline hours are multiplied by the percentage reduction in VSD transportation anticipated by witness Grossmann for each of the three types of labor. This calculation provides the hours required for VSD transportation in a five-day environment. Because, operations experts anticipate that no additional VSD hours will be needed on the other days of the week, all of these hours will be saved. Finally, these hour savings are multiplied by the relevant wage rates to obtain the cost savings. Note that in addition to the direct labor cost savings, these calculations also include cost savings for two indirect labor categories, supervision and administrative work. These operationally based cost savings are used in place of the FY2009 ACR piggyback ratios when total indirect costs are calculated

A similar calculation is then made to find the fuel cost savings. The FY2009 six-day Saturday miles are divided by the average miles per gallon for VSD vehicles to calculate the total gallons of fuel used on Saturdays in the six-day environment. These gallons are then multiplied by the average dollars per gallon to calculate the six-day Saturday fuel cost. The anticipated reduction in miles is then used to calculate the anticipated five-day fuel cost and the fuel cost savings is the difference between the two.

The last section of the worksheet calculates the indirect cost for VSDs. Operations anticipates no changes in Facility Related , Vehicle Depreciation, Other Equipment or Miscellaneous VSD indirect cost as a result of moving to five-day delivery. The cost savings for Supervision and Administrative work supporting the VSD function were calculated based upon an operations analysis of those functions. Service Wide VSD costs were calculated with the Service Wide piggyback ratio. Finally, the 8 million mile reduction in miles driven suggests that there will be a cost saving of about \$1.5 million in vehicle maintenance costs. However, the data to support this calculation were not available, so these cost savings were excluded.

Total Savings

The cost savings for Purchased Highway Transportation, Highway Box Routes, and Vehicle Service Drivers are combined in the final worksheet, entitled "Total Savings."