

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

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

DIRECT TESTIMONY  
OF  
ANN W. MOSER  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

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Library Reference:

USPS-LR-K-59



1 from the Georgia Institute of Technology in Atlanta, Georgia. I pursued a PhD in  
2 Economics and Political Science from the University of Georgia in Athens, Georgia from  
3 1998 to 2001.

4 This testimony represents my first appearance before the Postal Rate  
5 Commission.

1

**2 I. PURPOSE AND SCOPE OF TESTIMONY**

3 The purpose of this testimony is to present estimated test year volume variable  
4 costs for Express Mail and various special services, and to develop Final Adjustments  
5 for the rollforward process.

6 The cost analyses discussed in my testimony are provided in USPS-LR-K-59.

7 My test year cost estimates are provided to witnesses Robinson (USPS-T-27)  
8 and Taufique (USPS-T-28). The Final Adjustments are used by witnesses Waterbury  
9 (USPS-T-10), Kay (USPS-T-18), and Tayman (USPS-T-6).

10

**11 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

12 I develop my cost estimates and final adjustments using inputs I obtain from the  
13 following witnesses in this case: Witness Tayman (USPS-T-6) provides wage rates and  
14 premium pay factors (USPS-LR-K-50); witness Van-Ty-Smith (USPS-T-11) provides  
15 deaveraged wage rates (USPS-LR-K-55); witness Smith (USPS-T-13) provides  
16 piggyback factors in his testimony ; witness Taufique (USPS-T-28) provides test year  
17 volumes in his Exhibit A; witness Miller (USPS-T-19 and 20) provides cost model inputs  
18 for flats and parcels (USPS-LR-K-43 and USPS-LR-K-46); witness Mayes (USPS-T-25)  
19 provides the transportation costs for Parcel Post (USPS-LR-K-89); witness Abdirahman  
20 (USPS-T-21) provides cost model inputs for letters (USPS-LR-K-48); witness Wesner  
21 (USPS-T-24) provides cost model inputs for Delivery Confirmation, (USPS-LR-K-60);  
22 and witness Kelley (USPS-T-16) provides rural and city delivery costs (USPS-LR-K-67).  
23 The roll forward cost forecast was obtained from witness Waterbury (USPS-LR-K-7);

1 volume forecast data is from witness Bernstein (USPS-T-8; USPS-LR-K-66); witness  
2 Meehan (USPS-T-9) provides base year cost segment data. I obtained First-Class Mail  
3 and Standard Mail billing determinants from USPS-LR-K-77.

4 I have relied upon the following Docket No. R2001-1 library references and  
5 testimony in preparing my cost analyses:

- 6 • USPS LR-J-69, Cost Models Supporting USPS-T-42 (Abdirahman)
- 7 • USPS LR-J-64, Models Supporting USPS-T-25 (Eggleston).

8

### 9 **III. ADDRESS CORRECTION SERVICE**

#### 10 *A. Introduction*

11 Address Correction Service provides mailers with changes of address  
12 information for recipients who have moved. Address correction notifications are sent to  
13 mailers through one of two methods: (1) manual Address Correction Service or (2)  
14 Address Change Service (ACS). Manual Address Correction Service provides a  
15 photocopy of the mail piece with the recipient's forwarding address on a USPS Form  
16 3547 card for First-Class Mail and Standard Mail. The original mail piece is either  
17 forwarded to the recipient's new address or treated as waste, depending on the  
18 sender's preference and/or the class of mail. For Periodicals, the Postal Service  
19 provides mailers with the front cover of the recipient's periodical, with the change-of-  
20 address label affixed on the cover (known as Form 3579). The periodical is treated as  
21 waste. These activities are conducted at a Computerized Forwarding System (CFS)  
22 unit, normally housed within a Processing and Distribution Center. The Postal Service  
23 charges a fee for each address correction notification provided to a mailer.

1 ACS is an electronic notification service providing changes of address and  
 2 reasons for non-delivery. Users of this service access the data electronically via a  
 3 computer modem. The Postal Service charges a fee for each address correction and  
 4 reason for non-delivery provided to the customer. ACS mail pieces that are  
 5 undeliverable are called "ACS nixie mail pieces."

#### 6 *B. Methodology*

7 The cost methodology presented in USPS-LR-K-59 is unchanged from the  
 8 methodology in Docket No. R2001-1 (USPS-T-42). I have updated the wage rates,  
 9 piggyback factors, roll forward data and volumes for the test year.

#### 10 *C. Results*

11 The estimated test year costs resulting from the address correction service study  
 12 are shown in Table 1 below.

13 **Table 1. Test Year ACS Costs**

Manual Cost per Piece	\$0.5063
Automated Cost per Piece	\$0.147

14

### 15 **IV. CALLER SERVICE**

#### 16 *A. Introduction*

17 Caller Service allows an individual or firm to pick up its mail one or more times  
 18 per day at a caller window or loading dock. Banks, insurance companies, and other  
 19 financial institutions are examples of customers using this service. The service allows  
 20 these customers to receive cash payments and other time-sensitive mail as soon as  
 21 they become available without waiting for carrier delivery. Other Caller Service  
 22 customers include small businesses and post office box customers whose mail volume  
 23 exceeds the largest post office (P.O.) box capacity.

1 A customer using Caller Service is assigned a “phantom” P.O. box number that is  
 2 used for mail sortation purposes (i.e., the box does not physically exist). The Caller  
 3 Service customer is charged a semi-annual fee for each P.O. box number or separation.  
 4 Upon payment of an annual fee, the Postal Service allows customers to reserve caller  
 5 box numbers for future use. When a reserved caller box number is activated, the  
 6 customer is assessed the semi-annual caller service fee.

7 *B. Methodology*

8 The cost methodology for Caller Service is unchanged from the methodology in  
 9 Docket No. R2001-1 (USPS-T-42). I have updated hourly wage rates and piggyback  
 10 factors for the test year. See USPS-LR-K-59 for the Caller Service cost model.

11 *C. Results*

12 The estimated test year costs resulting from the Caller Service Study are shown  
 13 in Table 2 below. The estimated test year cost per caller service separation is \$689.17  
 14 per year. The estimated test year cost per reserved caller number is \$19.46, using  
 15 window service accounting costs as a proxy.

16 **Table 2: Test Year Caller Service Costs**

<b>Activity</b>	<b>Annual Cost (Direct and Indirect)</b>
Window Service Accounting	\$19.457
Window Service Delivery	\$208.891
Platform Delivery	\$325.591
Storage	\$135.234
<b>Total Cost per Separation</b>	<b>\$689.172</b>

17

18

## 1 V. CERTIFICATE OF MAILING

### 2 A. Introduction

3 Certificate of Mailing service provides evidence that mail has been presented to  
4 the Postal Service for mailing. Certificate of mailing service does not provide a record of  
5 delivery.

6 Form 3606 is used for a bulk mailing as a certificate to specify the number of  
7 pieces mailed. This certificate is provided only for a mailing of identical pieces of First-  
8 Class Mail, Standard Mail, or Package Services. This certificate states only the total  
9 number of articles mailed and does not certify an itemized list.

10 Form 3817 is used as a certificate for a single piece of First-Class Mail (including  
11 Priority Mail) or Package Services. Facsimile forms also may be used.

12 When requesting a Certificate of Mailing for three or more pieces presented at one time,  
13 a mailer may use Form 3877 (firm sheet) or a facsimile, subject to payment of the  
14 applicable fee for each item listed. Facsimile Forms 3877 must contain the same  
15 information as the postal-provided form. The sheets become the sender's receipts.

### 16 B. Methodology

17 The Certificate of Mailing cost methodology is unchanged from the methodology  
18 in Docket No. R2001-1 (USPS-T-42). I have updated hourly wage rates and piggyback  
19 factors for the test year. See USPS-LR-K-59 for the Certificate of Mailing cost model.

### 20 C. Results

21 The estimated test year costs resulting from the Certificate of Mailing study are in  
22 Table 3 below.

23 **Table 3: Test Year Certificate of Mailing Costs**

<u>Individual Pieces</u>	
Form 3817, Original (no duplicate)	\$0.67
Form 3817, Duplicate	\$0.53
Form 3877, Original - 13 pieces/cost per piece	\$0.23
<u>Bulk Quantities</u>	
Form 3606, Original - first 1000 pieces	\$3.47
Each Additional 1000 pieces	\$0.34
Form 3606, Duplicate	\$0.46

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## **VI. CORRECTION OF MAILING LISTS**

### *A. Introduction*

Correction of Mailing Lists is a service used primarily by small businesses to improve the accuracy of their mailing lists. A mailer typically presents a mailing list to the Postal Service via an Address Management System (AMS) unit, either on cards or sheets of paper separated by ZIP Code. The AMS unit enters the customer name into a log, corrects any apparent address errors, and then forwards the list to individual post offices for correction. At each post office, the mailing list is circulated among carriers for manual correction and then returned to the AMS unit upon completion. The AMS unit confirms completion and returns the corrected list to the customer. The Postal Service charges a fee for each name on the mailing list.

### *B. Methodology*

The cost methodology presented here is unchanged from the methodology in Docket No. R2001-1 of witness Abdirahman (USPS-T-42). I have updated wage rates, piggyback factors, and the First-Class Mail single piece cost. See USPS-LR-K-59 for the Correction of Mailing Lists cost study.

### *C. Results*

The estimated test year cost per name on a mailing list is 26.9 cents (see USPS-LR-K-59).

1 **VII. EXPRESS MAIL RATE CATEGORY COST DIFFERENTIALS**

2 *A. Introduction*

3 In Docket No. R97-1, witness Nelson (Docket No. R97-1, USPS-T-19) developed  
 4 a methodology for Express Mail pricing based on delivery-related differences for the  
 5 following Express Mail rate categories: Post Office to Addressee, Post Office to Post  
 6 Office, and Custom Designed. He utilized data from carrier/messenger surveys to  
 7 support the new approach. The Commission adopted the new cost methodology and  
 8 implemented the proposal in PRC Op., R97-1, PRC-LR-5.

9 *B. Methodology*

10 I have updated witness Nelson's cost methodology (Docket No R97-1, Exhibit  
 11 USPS-19D) using test year piggyback factors and wage rates. See USPS-LR-K-59 for  
 12 the Express Mail Rate Category Cost Differentials cost study.

13 *C. Results*

14 Estimated test year cost differentials between Express Mail rate categories are  
 15 show below in Table 4. The delivery-related costs associated with different rate  
 16 categories are determined through the unit costs associated with different delivery  
 17 methods. The differences between the delivery-related costs for each rate category and  
 18 the mean delivery-related cost per piece, \$1.047, provides the bases for establishing  
 19 the "per piece" cost differentials across rate categories.

20 **Table 4: Cost Differentials Across Express Mail Categories**

Rate Category	Delivery-Related Cost Per Piece	Cost Per Piece Differential From Mean
PO-to-PO	\$0.081	(\$0.966)
PO-to-Addressee	\$1.061	\$.014
Custom Designed	\$0.142	(\$0.905)

1 **VIII. INSURANCE**

2 *A. Introduction*

3 Insurance is a special service that provides indemnity coverage for lost, rifled or  
 4 damaged articles. Insurance for up to \$50 in value is unnumbered, and no delivery  
 5 record is obtained. Insurance for over \$50 in value is numbered, and a delivery record  
 6 is obtained.

7 *B. Methodology*

8 The Insurance cost methodology is unchanged from the methodology of witness  
 9 Abdirahman in Docket No. R2001-1 (USPS-T-42). I have updated wage rates,  
 10 piggyback factors, test year roll-forward costs, test year volume, and the average  
 11 indemnity per transaction.

12 *C. Results*

13 The estimated costs resulting from the Insurance cost study are in Table 5 below.

14 **Table 5: Estimated Insurance Costs**

Numbered	\$2.34
Unnumbered	\$0.94
Combined	\$1.93
Volume Variable Cost Differential	\$1.40
Bulk Insurance Cost Savings – Numbered	\$1.386
Bulk Insurance Cost Savings -- Unnumbered	\$0.974

15

16

## 1 **IX. MONEY ORDER INQUIRY**

### 2 *A. Introduction*

3 A purchaser, payee, or endorsee may, at any time, inquire about payment of a  
4 domestic money order by completing, signing, and filing Form 6401, and paying the  
5 appropriate fee; a separate form and fee are required for each money order.

### 6 *B. Methodology*

7 The Money Order Inquiry cost methodology is unchanged from the methodology  
8 of witness Abdirahman in Docket No. R2001-1 (USPS-T-42). I have updated the First-  
9 Class Mail processing cost, the test year roll-forward cost, the base year CRA cost, and  
10 Money Order volume. See USPS-LR-K-59 for the Money Order Inquiry cost study.

### 11 *C. Results*

12 The estimated costs resulting for a Money Order Inquiry is \$2.76.

13

## 14 **X. ON-SITE METER SERVICE**

### 15 *A. Introduction*

16 Under the on-site meter service program, qualified Postal Service employees  
17 may set or examine postage meters at a licensed customer's place of business for a  
18 fee. This program also allows a meter manufacturer to have qualified Postal Service  
19 employees check meters into and out of service at the meter manufacturer's place of  
20 business (also known as a direct distribution center, or DDC) for a fee.

### 21 *B. Methodology*

22 The Onsite Meter Service methodology is unchanged from the methodology of  
23 witness Abdirahman in Docket No. R2001-1 (USPS-T-42). I have updated the wage

1 rates, piggyback factors, and the measure of inflation, CPI. See USPS-LR-K-59 for the  
2 Onsite Meter Service cost study.

### 3 *C. Results*

4 The estimated costs resulting from the Onsite Meter Service cost study are in  
5 Table 6.

6 **Table 6: Test Year Onsite Meter Service**

Access Cost	\$28.86
Each Meter Reset and/or Examined	\$5.66
Each Meter Checked In or Out of Service	\$2.84

7

## 8 **XI. PERIODICALS APPLICATIONS**

### 9 *A. Introduction*

10 Before a publication will be considered for Periodicals authorization, the publisher  
11 at the post office must file a Periodicals Application for Original Entry (Form 3501)  
12 where the publisher is located. Upon receipt, the postmaster or other postal employee  
13 visits the publisher's office to verify information provided in the application. The post  
14 office then sends the application to the district office for initial review and processing.  
15 Following an initial review, the district office forwards the application to a Pricing and  
16 Classification Center (PCC) for a detailed review and coordination with the Library of  
17 Congress. A PCC analyst issues an approval or denial based on the above analyses.

### 18 *B. Methodology*

19 The cost methodology for Periodicals Applications is similar to the Docket No.  
20 R2001-1 methodology (see Docket No. R2001-1, USPS LR-J-69), with one exception;  
21 piggyback factors have been excluded in the past. This has been corrected in this  
22 testimony. I have included piggyback factors where direct labor is used in a postal

1 facility. Wage rates and the measure of inflation, CPI, have been updated. See USPS-  
 2 LR-K-59 for the Periodicals Application cost model.

3 *C. Results*

4 Estimated test year costs for Periodicals Applications are shown below in  
 5 Table 7.

**Table 7: Test Year Periodicals Application Costs**

<b>Periodicals Application Type</b>	<b>Total Test Year Cost per Application</b>
Original Entry	\$393.03
Reentry	\$60.03
Additional Entry	\$43.80
News Agents	\$30.27

6 **XII. POST OFFICE BOX KEY AND LOCK CHANGES**

7 *A. Introduction*

8 Post office box customers may request additional keys to their post office box  
 9 and may request that the lock on their box be changed after they begin using it. In  
 10 providing either of these ancillary services, the Postal Service incurs cost.

11 *B. Methodology*

12 The cost methodology for Post Office Box Key and Lock Changes remains  
 13 unchanged from that presented in Docket Number R2001-1 (USPS-T-42). I have  
 14 updated wage rates, piggyback factors, the material cost, and the distribution cost. See  
 15 USPS-LR-K-59 for the Post Office Box Key and Lock Changes cost model.

1        *C. Results*

2            A summary of the costs for providing additional post office box keys and for  
 3 changing post office box locks is presented below in Table 8. The detailed analysis is  
 4 presented in USPS-LR-K-59.

**Table 8: Test Year Unit Volume Variable Costs  
 for Post Office Box Key and Lock Change Service**

<b>Type of Service</b>	<b>Volume Variable Cost</b>
Providing additional post office box key	\$3.452
Changing post office box lock	\$7.714

5  
 6        **XIII. RESTRICTED DELIVERY**

7            *A. Introduction*

8            Restricted delivery service permits a mailer to direct delivery only to the  
 9 addressee or addressee's authorized agent. The addressee must be an individual  
 10 specified by name. Restricted Delivery service is available for (a) First-Class Mail  
 11 (including Priority Mail) when purchased at the time of mailing with certified mail, COD,  
 12 insured mail (for more than \$50), or registered mail service; (b) Standard Mail subject to  
 13 the residual shape surcharge when bulk insurance (for more than \$50) is purchased at  
 14 the time of mailing; and (c) Package Services when purchased at the time of mailing  
 15 with COD or insured mail (for more than \$50) service.

16            *B. Methodology*

17            The Restricted Delivery cost methodology is unchanged from the methodology of  
 18 witness Abdirahman in Docket No. R2001-1 (USPS-T-42). I have updagged wage rates,  
 19 piggyback factors and the cost of First-Class Mail - Single Piece. See USPS-LR-K-59.

1        *C. Results*

2            The estimated test year costs for Restricted Delivery is \$2.279.

3

4        **XIV. STAMPED CARDS**

5            *A. Introduction*

6            Stamped Cards allow firms and individuals to purchase cards already embossed  
7 with postage for the First-Class Mail single card rate. Presently, four types of Stamped  
8 Cards are available: (1) single-cut, (2) single-sheet, (3) reply card, and (4) banded.

9            Stamped Cards may be purchased in bulk or in single units through post offices  
10 and the Stamp Fulfillment Services Center (SFSC) in Kansas City. Postal vending  
11 machines sometimes offer stamped cards for purchase in banded packs.

12            *B. Methodology*

13            Test year costs for Stamped Cards are based solely on contract prices  
14 negotiated with the U.S. Government Printing Office. These costs include materials,  
15 printing, and distribution.

16            *C. Results*

**Table 9: Test Year Stamped Card Costs**

<b><i>Stamped Card Style</i></b>	<b><i>Cost per Thousand</i></b>	<b><i>Cost per Card</i></b>
Single Cut	\$14.00	\$0.014
Single Sheet	\$14.00	\$0.014
Reply Card	\$28.00	\$0.028
Banded	\$31.00	\$0.031

17

1 **XV. STAMPED ENVELOPES**

2 *A. Introduction*

3 The Stamped Envelope cost model presented in this testimony consists of three  
4 components: (1) manufacturing costs, (2) distribution costs, and (3) selling costs. Each  
5 component is discussed briefly below.

6 *B. Methodology*

7 The methodology for the Stamped Envelopes cost study is unchanged from  
8 witness Abdirahman's methodology in Docket No. R2001-1 (USPS-T-42). I have  
9 updated the CPI, mail processing costs per carton, costs per cubic foot, test year roll  
10 forward costs, base year CRA costs, SFSC customer service costs, and contract costs.

11 *C. Results*

12 Test year costs for plain Stamped Envelopes are below in Table 10.

**Table 10: Test Year Stamped Envelope Costs**

	SIZE	STYLE	BOX LOT OF 500 COST	SINGLES		SIZE	STYLE	BOX LOT OF 500 COST
<b>PLAIN 10</b>					<b>PRINTED 9</b>			
214100	10.00	Regular	\$8.60	\$0.0860	214300	9.00	Regular	\$17.14
215100	10.00	Regular	\$8.60	\$0.0860	215400	9.00	Window	\$18.86
215500	10.00	Regular	\$8.60	\$0.0860	<b>PRINTED 6 3/4</b>			
218300	10.00	Regular	\$8.57	\$0.0860	262500	6.75	Regular	\$24.37
214200	10.00	Window	\$9.68	\$0.0882	262700	6.75	Regular	\$13.17
215200	10.00	Window	\$9.68	\$0.0882	264100	6.75	Regular	\$13.17
<b>PLAIN 9</b>					265500	6.75	Regular	\$13.17
214300	9.00	Regular	\$11.13	\$0.0911	262800	6.75	Window	\$14.52
215400	9.00	Window	\$12.85	\$0.0945	264200	6.75	Window	\$14.33
<b>PLAIN 6 3/4</b>					<b>PRINTED HOUSEHOLD 10</b>			
264100	6.75	Regular	\$6.80	\$0.0824	210100	10.00	Regular	\$2.57
265500	6.75	Regular	\$6.80	\$0.0824	210500	10.00	Regular	\$2.58
264200	6.75	Window	\$7.96	\$0.0848	210600	10.00	Window	\$2.69
<b>PRINTED 10</b>					<b>PRINTED HOUSEHOLD 9</b>			
214100	10.00	Regular	\$14.61		210800	9.00	Regular	\$2.83
215100	10.00	Regular	\$14.61		210900	9.00	Window	\$3.01
215500	10.00	Regular	\$14.61		<b>PRINTED HOUSEHOLD 6 3/4</b>			
216400	10.00	Regular	\$14.61		260100	6.75	Regular	\$2.44
218300	10.00	Regular	\$14.58		262500	6.75	Regular	\$2.44
214200	10.00	Window	\$15.69		264100	6.75	Regular	\$1.31
215200	10.00	Window	\$15.68		262600	6.75	Window	\$2.55
					262700	6.75	Regular	\$1.31

1

2 **XVI. ZIP CODING OF MAILING LISTS**

3 *A. Introduction*

4 ZIP Coding of Mailing Lists is a service that allows mailers to submit mailing lists  
 5 on index cards for ZIP Code sortation. A fee is charged for every 1,000 addresses on  
 6 the mailing list.

1        *B. Methodology*

2            The cost methodology presented in USPS LR-K -59 is the same as found in  
3 Docket No. R2001-1, using updated piggyback factors, First-Class Mail single piece  
4 cards costs, and wage rates (see USPS-LR-K-59).

5        *C. Results*

6            The estimated test year cost for ZIP Coding of Mailing Lists is \$72.85 per 1,000  
7 cards.

8

9        **XVII. FINAL ADJUSTMENTS**

10       *A. Introduction*

11           The purpose of this section is to calculate roll forward final adjustments for FY  
12 2005, the test year before rates (TYBR), and the test year after rates (TYAR). These  
13 adjustments are used by witness Waterbury (UPSP-T-10) to adjust costs by subclass in  
14 the roll-forward process. Witness Kay (USPS-T-18) uses the final adjustments by rate  
15 category and cost component in her development of incremental costs. Witness  
16 Tayman (USPS-T-6) adjusts Rollforward expense estimates for final adjustments in  
17 order to produce total expenses, the Test Year revenue requirement, and income  
18 statements for FY 05 and the Test Year (see Exhibits 6A and 6N).

19           Final adjustments are needed because the roll forward process does not capture  
20 changes in the mix of mail below the CRA/rollforward categories. For some classes of  
21 mail, this is a valid assumption. However, for other classes of mail, the mail mix  
22 changes in ways that significantly affects costs. If costs were not adjusted, the test year  
23 costs would be overstated. I have also incorporated final adjustments to reflect the

1 impact of Negotiated Service Agreements (NSAs) with Bank One and Discover, the  
2 impacts of which were not already in the base year costs. The final adjustment for  
3 Delivery Confirmation reflects the increased domination of the Other Special Services  
4 category by the Delivery Confirmation product. Without a final adjustment to costs  
5 mirroring the decline in average revenue for the Other Special Services category, the  
6 ratio of revenue to cost for the aggregate category would be skewed. An additional set  
7 of final adjustments is made to shift a portion of the costs of providing Delivery  
8 Confirmation service to the Priority Mail and Parcel Select subclasses, similar to the  
9 adjustment made by witness Kiefer in Docket No. R2001-1 (USPS-LR-J-120).

10 *B. Methodology*

11 The steps involved with calculating final adjustments are described below. In  
12 order to simplify the explanation, the steps will describe how the Parcel Post mail  
13 processing FY 2005 final adjustment is calculated.

14

15 **Step 1.** Calculate the average mail processing unit cost used by the roll forward model  
16 to calculate the Parcel Post mail processing costs in FY2005. This is estimated by  
17 dividing total mail processing Parcel Post costs by total Parcel Post volume, using the  
18 base year volume mix.

19

20 **Step 2.** Calculate the average mail processing unit cost for Parcel Post in FY2005  
21 assuming the FY 2005 Parcel Post volume mix. This unit cost is estimated by  
22 multiplying the FY 2005 mail processing unit cost for each rate category by its

1 respective FY 2005 volume, and then dividing the sum by total Parcel Post FY 2005  
2 volume.

3

4 **Step 3.** Subtract the unit cost in Step 1 from the unit cost in Step 2. This is the unit  
5 cost differential between the average unit cost assuming FY 2005 volume mix and the  
6 average unit cost assuming base year volume mix.

7

8 **Step 4.** Multiply the cost differential calculated in Step 3 by Parcel Post volume in FY  
9 2005. This is the mail processing Parcel Post adjustment for FY 2005. If this number is  
10 positive, this is the amount to be added to the roll-forward cost. If this number is  
11 negative, this is the amount to be subtracted from the roll-forward cost.

12 For the NSA adjustment, I have relied upon the methodological approaches  
13 presented in Negotiated Service Agreement litigation for the Bank One and Discover  
14 cases; however my estimates are not identical to the ones in the NSA cases because I  
15 am using cost estimates developed in the context of this omnibus case.

## 1      C. Results

2                   **Table 11: Total Final Adjustments, LR-K-59, Attachment 14a**

<b>Mail Class</b>	<b>2005</b>	<b>BR 2006</b>	<b>AR 2006</b>
First-Class Presort	(35,580)	(67,931)	(114,658)
First-Class Presort Cards	(2,175)	(4,608)	(4,600)
Standard Regular	(139,560)	(249,283)	(253,704)
Parcel Post	8,041	65,242	54,314
Priority Mail		24,842	23,861
Other Special Services			
Delivery Confirmation Cost Shift		(55,161)	(52,984)
Total For All Classes Assigned to Cost Segment	(169,273)	(286,899)	(347,771)
Other Special Services			
Mail Mix Change	(12,066)	(29,530)	(22,933)
<b>Total For All Classes</b>	<b>(181,339)</b>	<b>(316,429)</b>	<b>(370,704)</b>

3

4      **XVIII. Proposed Changes Relative to PRC Methodology**

5           The material changes between my cost models, USPS-LR-K-59, and the PRC  
6 version, USPS-LR-K-111, are volume variabilities, piggybacks factors, and the roll-  
7 forward, and city and rural delivery costs.

8           The following chart compares the test year cost estimates produced in USPS-LR-  
9 K-59 with the ones produced in the PRC version (USPS-LR-K-111).

1

**Table 12: Test Year Cost Estimates**

	<b>LR-K-59</b>	<b>LR-K-111</b>
<b>Address Correction Service</b>		
Manual - cost per piece	\$0.506	\$0.521
Automated - cost per piece	\$0.147	\$0.156
<b>Caller Service</b>		
Annual cost per call number	\$19.46	\$19.43
Annual cost per reserved number	\$689.17	\$693.21
<b>Certificate of Mailing</b>		
<u>Individual Pieces</u>		
Form 3817, Original (no duplicate)	\$0.67	\$0.67
Form 3817, Duplicate	\$0.53	\$0.53
Form 3877, Original – 13 pieces/cost per piece	\$0.23	\$0.23
<u>Bulk Quantities</u>		
Form 3606, Original - first 1000 pieces	\$3.47	\$3.51
Each Additional 1000 pieces	\$0.34	\$0.35
Form 3606, Duplicate	\$0.46	\$0.47
<b>Correction of Mailing Lists</b>		
Cost per name on list	\$0.269	\$0.276
<b>Insurance</b>		
Numbered	\$2.34	\$2.50
Unnumbered	\$0.94	\$1.13
Combined	\$1.93	\$2.10
Volume Variable Cost Differential	\$1.40	\$1.37
Bulk Insurance Cost Savings - Numbered	\$0.974	\$0.983
Bulk Insurance Cost Savings - Unnumbered	\$1.386	\$1.399
<b>Money Order Inquiry</b>	\$2.76	\$3.34
<b>On-site Meter Service</b>		
Access Cost	\$28.86	\$28.87
Each Meter Reset and/or Examined	\$5.66	\$5.66
Each Meter Checked in or out of Service	\$2.84	\$2.84
<b>Periodicals Applications</b>		
Original Entry Cost	\$393.03	\$392.87
Additional Entry Cost	\$60.03	\$59.94
Reentry Cost	\$43.80	\$43.73
Registration for News Agents	\$30.27	\$30.24
<b>PO Boxes</b>		
Cost of Ordering a New Key	\$3.45	\$3.48
Cost of Changing PO Box Lock	\$7.71	\$7.79

<b>Restricted Delivery</b>	\$2.28	\$2.31
<b>ZIP Coding of Mailing Lists</b>		
Cost per 1000 Cards	\$72.85	\$73.81
<b>Stamped Card Cost</b> <i>same for USPS and PRC</i>	<b>COST</b>	<b>COST PER 1000</b>
Single Cut	\$14.00	\$0.014
Single Sheet	\$14.00	\$0.014
Reply Card	\$28.00	\$0.028
Banded	\$28.00	\$0.031
<b>Stamped Envelopes, see below</b>		
<b>Express Mail Costs</b>		
PO-to-PO	\$0.08	\$0.09
PO-to-Addressee	\$1.06	\$1.07
Custom Designed	\$0.14	\$0.15

1

2 The following table presents PRC Final Adjustment that can be compared to the

3 Postal Service Final Adjustments shown in Table 11.

**Table 13: PRC Version Total Final Adjustments  
LR-K-111, Attachment 14a**

<b>Mail Class</b>	<b>2005</b>	<b>BR 2006</b>	<b>AR 2006</b>
First-Class Presort	(36,049)	(66,455)	(113,419)
First-Class Presort Cards	(2,311)	(4,907)	(4,936)
Standard Regular	(161,761)	(287,244)	(293,647)
Parcel Post	8,522	67,370	57,207
Priority Mail		24,888	23,906
Other Special Services			
Delivery Confirmation Cost Shift		(55,264)	(53,084)
Total For All Classes Assigned to Cost Segment	(191,599)	(321,612)	(383,973)
Other Special Services			
Mail Mix Change	(37,994)	(86,443)	(69,304)
<b>Total For All Classes</b>	<b>(229,593)</b>	<b>(408,055)</b>	<b>(453,277)</b>

3

4

The PRC Stamped Envelope costs shown in Table 14 can be compared to the

5

Postal Service Stamped Envelope costs shown in Table 10.

1

**Table 14: Stamped Envelopes, PRC Version**

	SIZE	STYLE	BOX LOT OF 500 COST	SINGLES		SIZE	STYLE	BOX LOT OF 500 COST
<b>PLAIN 10</b>					<b>PRINTED 9</b>			
214100	10.00	Regular	\$8.41	\$0.0857	214300	9.00	Regular	\$17.14
215100	10.00	Regular	\$8.41	\$0.0857	215400	9.00	Window	\$18.86
215500	10.00	Regular	\$8.41	\$0.0857	<b>PRINTED 6 3/4</b>			
218300	10.00	Regular	\$8.38	\$0.0856	262500	6.75	Regular	\$24.37
214200	10.00	Window	\$9.49	\$0.0878	262700	6.75	Regular	\$13.17
215200	10.00	Window	\$9.49	\$0.0878	264100	6.75	Regular	\$13.17
<b>PLAIN 9</b>					265500	6.75	Regular	\$13.17
214300	9.00	Regular	\$10.94	\$0.0907	262800	6.75	Window	\$14.52
215400	9.00	Window	\$12.66	\$0.0942	264200	6.75	Window	\$14.33
<b>PLAIN 6 3/4</b>					<b>PRINTED HOUSEHOLD 10</b>			
264100	6.75	Regular	\$6.68	\$0.0822	210100	10.00	Regular	\$2.57
265500	6.75	Regular	\$6.68	\$0.0822	210500	10.00	Regular	\$2.58
264200	6.75	Window	\$7.84	\$0.0845	210600	10.00	Window	\$2.69
<b>PRINTED 10</b>					<b>PRINTED HOUSEHOLD 9</b>			
214100	10.00	Regular	\$14.61		210800	9.00	Regular	\$2.83
215100	10.00	Regular	\$14.61		210900	9.00	Window	\$3.01
215500	10.00	Regular	\$14.61		<b>PRINTED HOUSEHOLD 6 3/4</b>			
216400	10.00	Regular	\$14.61		260100	6.75	Regular	\$2.44
218300	10.00	Regular	\$14.58		262500	6.75	Regular	\$2.44
214200	10.00	Window	\$15.69		264100	6.75	Regular	\$1.31
215200	10.00	Window	\$15.68		262600	6.75	Window	\$2.55
					262700	6.75	Regular	\$1.31

2

3

4 To the extent that, in response to Commission Rule 53, I discuss and compare  
 5 PRC versions of costing materials in this testimony, I do not sponsor those materials, or  
 6 in any way endorse the methodologies used to prepare them. In its Order No. 1380  
 7 adopting the roadmap rule, the Commission included the following statements regarding  
 8 the role played by Postal Service witnesses under these circumstances:

9

10

11

The comparison required by this exercise cannot be equated with sponsoring the preexisting methodology. It merely identifies and gives context to the proposed change, serving as a benchmark so

1           that the impact can be assessed. ... [W]itnesses submitting  
2           testimony under Rule 53(c) sponsor the proposed methodological  
3           changes, not the preexisting methodology. That they may be  
4           compelled to reference the preexisting methodology does not mean  
5           that they are sponsoring it.  
6

7   Order No. 1380 (August 7, 2003) at 7. Therefore, although I may be compelled to refer  
8   to the PRC methodologies and versions corresponding to the Postal Service proposals  
9   which are the subject of my testimony, my testimony does not sponsor those PRC  
10 materials.