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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
MICHAEL W. MILLER
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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Category 2 Library References

- USPS-LR-K-46
- USPS-LR-K-47

ASSOCIATED LIBRARY REFERENCES

USPS-LR-K-46: Parcels Cost Models

This Category 2 library reference contains the cost models that are used to develop test year 2006 cost estimates for Parcel Post, Bound Printed Matter, and Media / Library Mail. In Docket No. R2001-1, parcels cost models were contained in USPS-LR-J-64 and were described in testimony USPS-T-25.

USPS-LR-K-47: Parcel Post Volume, Cubic Feet, and Weight Data

This Category 2 library reference describes the development of the Parcel Post volume, cubic feet, and weight data, which are used in the cost models found in USPS-LR-K-46. In Docket No. R2001-1, these data were described in USPS-LR-J-67.

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**DIRECT TESTIMONY
OF
MICHAEL W. MILLER**

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AUTOBIOGRAPHICAL SKETCH

6 My name is Michael W. Miller. I am an Economist in Special Studies at the
7 United States Postal Service. Special Studies is a unit of Corporate Financial Planning
8 in Finance at Headquarters. I have testified before the Postal Rate Commission on
9 seven separate occasions.

10 Most recently, I testified as a witness in opposition to the Time Warner, et al.
11 complaint case, Docket No. C2004-1.

12 In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness
13 on behalf of the Postal Service. The first testimony presented First-Class Mail
14 letters/cards and Standard Mail letters mail processing unit cost estimates and
15 worksharing related savings estimates, the Qualified Business Reply Mail (QBRM)
16 worksharing related savings estimate, the nonstandard surcharge/nonmachinable
17 surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies. The
18 second testimony presented First-Class Mail, Periodicals, and Standard Mail flats mail
19 processing unit cost estimates.

20 In Docket No. R2000-1, I testified as the direct witness presenting First-Class
21 Mail letters/cards and Standard Mail letters mail processing unit cost estimates and
22 worksharing related savings estimates. My testimony also included the cost study
23 supporting the nonstandard surcharge. In that same docket, I also testified as a rebuttal
24 witness. My testimony contested key elements of the worksharing discount proposals
25 presented by several First-Class Mail intervenors, as well as the Office of the Consumer
26 Advocate (OCA).

27 In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply Mail
28 (PRM) and QBRM mail processing cost avoidance estimates. In that same docket, I
29 also testified as a rebuttal witness concerning the Courtesy Envelope Mail (CEM)
30 proposal presented by the OCA.

1 Prior to joining the Special Studies unit in January 1997, I served as an Industrial
2 Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego,
3 California. In that capacity, I worked on field implementation projects. For example, I
4 was the local coordinator for automation programs such as the Remote Bar Coding
5 System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also responsible for
6 planning the operations for a new Processing and Distribution Center (P&DC) that was
7 activated in 1993. In addition to field work, I have completed detail assignments within
8 the Systems/Process Integration group in Engineering. My primary responsibility during
9 those assignments was the development of Operating System Layouts (OSL) for new
10 facilities.

11 Prior to joining the Postal Service, I worked as an Industrial Engineer at General
12 Dynamics Space Systems Division, where I developed labor and material cost
13 estimates for new business proposals. These estimates were submitted as part of the
14 formal bidding process used to solicit government contracts.

15 I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa
16 State University in 1984 and a Master of Business Administration from San Diego State
17 University in 1990. I also earned a Professional Engineer registration in the State of
18 California in 1990.

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

2 This testimony describes the test year 2006 Parcel Post, Bound Printed Matter,
3 and Media Mail / Library Mail cost estimates, which are being provided in light of the
4 Postal Rate Commission's views expressed in Docket No. R94-1, paragraph [1034].
5 The aggregate (machinable, Non Machinable Outside (NMO), and oversize) volume
6 variable mail processing unit cost estimates for the Parcel Post rate categories are
7 relied upon by witness Moser (USPS-T-23) as a means to calculate final adjustments.

1 **II. GUIDE TO TESTIMONY**

2 The parcels mail processing cost models can be found in USPS-LR-K-46. In
3 addition to USPS-LR-K-46, I am sponsoring library reference USPS-LR-K-47, which
4 contains Parcel Post volume, cubic feet, and weight data.

5 The parcels cost models also rely on data inputs that have been generated by
6 other postal witnesses. Witness Van-Ty-Smith (USPS-T-11) provides wage rates
7 (USPS-LR-K-55), premium pay factors (USPS-LR-K-55), and volume variability factors
8 (USPS-T-11, Table 1); witness Bozzo (USPS-T-12) provides base year Management
9 Operating Data System (MODS) productivity figures (USPS-LR-K-56); witness Smith
10 (USPS-T-13) provides piggyback factors (USPS-LR-K-52) and mail processing unit cost
11 estimates by shape (USPS-LR-K-53); witness Meehan (USPS-T-9) provides base year
12 cost data (USPS-LR-K-5); witness Waterbury (USPS-T-10) provides test year cost data;
13 and witness Cutting (USPS-T-26) provides Parcel Post window service costs and Bound
14 Printed Matter mail processing costs (USPS-LR-K-86). Billing determinants data are
15 used in the models and can be found in USPS-LR-K-77. Base Year 2004 Revenue,
16 Pieces and Weights (RPW) mail volumes by shape and Government Fiscal Year (GFY)
17 2003 Productivity Information Management System (PIMS) data are also contained in
18 the models. The remaining assumptions used in the cost models are identical to the
19 Docket No. R2001-1 assumptions found in USPS-LR-J-64 and described in USPS-T-25.

20 The aggregate test year volume variable mail processing unit cost estimates for
21 the Parcel Post rate categories have been provided to witness Moser (USPS-T-23) for
22 purposes of calculating final adjustments. The cost estimates from the Parcel Post,
23 Bound Printed Matter, and Media Mail / Library Mail cost models have also been
24 provided to witnesses Robinson (USPS-T-27) and Taufique (USPS-T-28).

1 III. PARCELS COST ESTIMATES

2 This testimony describes the parcels cost estimates, which were last calculated
3 in Docket No. R2001-1, USPS-LR-J-64. Most changes that have been made to the cost
4 models involve simple updates of cost model inputs (*e.g.*, wage rates, piggyback
5 factors). Those cases in which other changes were required are described in the
6 appropriate sections below.

7 A. TEST YEAR PARCELS MAIL PROCESSING TECHNOLOGIES

8 The test year 2006 Postal Service parcel processing network is the same as that
9 used to forecast test year 2003 costs in Docket No. R2001-1. Machinable parcels are
10 sorted to the 5-digit level at one of the 21 Bulk Mail Centers (BMCs) or eight Auxiliary
11 Service Facilities (ASFs). Non Machinable Outsides (NMO) and oversize parcels are
12 sorted to the 3-digit level at the BMCs and are then dispatched to Processing and
13 Distribution Centers (P&DCs) or Processing and Distribution Facilities (P&DFs), where
14 they are then sorted to the 5-digit level. Parcels are dispatched to Delivery Units (DUs)
15 once the mail has been sorted to the 5-digit level. At the DUs, clerks then sort the
16 parcels to the carrier route level.

17 B. COST MODEL CHANGES

18 Despite the fact that the test year 2006 processing environment is identical to
19 that forecast for the test year in Docket No. R2001-1, some changes have been made
20 to the basic mail processing cost model due to the fact that better data are now
21 available. In Docket No. R2001-1, the historic Productivity Information Management
22 System (PIMS) data did not reflect the fact that the Singulation Scan Induction Units
23 (SSIU) had been added to the Secondary Parcel Sorting Machine (SPSM) operations at
24 19 of the 21 BMCs. As an alternative in that docket, witness Eggleston (USPS-T-25)
25 relied on a unit cost estimate developed by witness Smith (USPS-T-15).

26 In this docket, updated Government Fiscal Year (GFY) 2003 PIMS productivities
27 are used in the models. The affected BMCs had the SSIU retrofits in place during the
28 entirety of GFY 2003. In the cost models, GFY 2003 PIMS productivities have therefore
29 been used for the SPSM operations, as well as the following operations: Sack Sorting
30 Machine (SSM), Primary Parcel Sorting Machine (PPSM), and NMO distribution.

1 The GFY 2003 data were used because that is the last complete year in which
2 PIMS data are available. Beginning in GFY 2004, and extending throughout that year,
3 the BMCs began converting to the Management Operating Data System (MODS) and
4 the PIMS system was shut down. The BMC MODS conversions were completed by the
5 end of GFY 2004.

6 **C. COST METHODOLOGY**

7 In Docket No. R2001-1, a combination of hybrid and cost avoidance cost
8 methodologies were used to develop parcels cost estimates. Those same
9 methodologies are again relied upon in this docket. The specific cost methodology that
10 is used varies by subclass.

1 IV. PARCEL POST COST ESTIMATES

2 The Parcel Post cost study results can be found in Table 1 below.¹ A hybrid cost
3 methodology is relied upon in all but four of the Parcel Post cost analyses.² Those
4 analyses are discussed in more detail below.

5 A. HYBRID COST METHODOLOGY

6 Using a hybrid approach, mail flow cost models are first developed for each
7 Parcel Post mail stream (e.g., machinable Inter-BMC parcels). Each mail flow cost
8 model depicts the direct labor operations in which those mail pieces incur costs.

9 An example of the mail flow cost models can be found in USPS-LR-K-46, page 8.
10 The inputs to the cost model can be found in USPS-LR-K-46, pages 3-7. The first
11 column in the mail flow cost model depicts the "number of handlings" each mail piece
12 incurs in each operation. For example, the indicated number of handlings for the PPSM
13 operation is 1.000, as each parcel would have to be individually processed on that
14 machine. The number of handlings in operations involving loading and unloading,
15 however, is less than 1.000 in order to reflect the fact that parcels can be transported to
16 and entered into a given facility in a variety of ways (e.g., sacks, pallet boxes).

17 The second column shows the productivity figures for each operation. These
18 figures can be found on page 3 of USPS-LR-K-46 and have been adjusted using
19 volume variability factors.

20 The third column contains conversion factors. Conversion factors indicate the
21 number of parcels per container that can be processed per handling. When parcels are
22 handled individually, the conversion factor is 1.000.

23 The fourth column displays piggyback factors, which have historically been relied
24 upon to estimate "indirect" costs. Piggyback factors can be found on page 5 of USPS-
25 LR-K-46.

26 The fifth column calculates the cost per operation. The product of the test year
27 premium pay-adjusted mail processing wage rate (from page 5 of USPS-LR-K-46) and

¹ More detailed results can be found in USPS-LR-K-46, page 1.

² A hybrid cost methodology indicates that a combination of engineering cost models and Cost and Revenue Analysis (CRA) data are used to develop estimates by rate category.

1 the piggyback factor for each operation are divided by the product of the productivity
2 figure and conversion factor for that operation.

3 The sixth column displays the total operation cost, or cost per facility. These
4 figures are calculated by multiplying the operation cost by the number of handlings for
5 that operation.

6 The sum of the operation costs per facility is the model cost for that particular
7 mail stream. A weighted model cost estimate is then developed by multiplying the base
8 year volume percentage for that particular mail stream by the model cost estimate.

9 After the weighted model cost estimates for all mail streams have been
10 developed, they are summed and compared to the sum of the CRA mail processing
11 proportional cost pools.³ A proportional adjustment factor is calculated by dividing the
12 sum of the CRA mail processing proportional cost pools by the aggregate weighted
13 model cost for all mail streams. The sum of the non-proportional (non-modeled) cost
14 pools is used as a fixed adjustment factor.

15 For each Parcel Post mail stream, the CRA-adjusted total mail processing unit
16 cost estimate is calculated by adding the CRA fixed adjustment factor to the product of
17 the CRA proportional adjustment factor and the model cost for that mail stream.

18 These data are used to develop aggregate (machinable, NMO, and oversize)
19 total mail processing unit cost estimates by rate category, which support the final
20 adjustments analysis conducted by witness Moser (USPS-T-23). Furthermore, these
21 figures are used to calculate cost savings estimates and additional cost estimates as
22 indicated in Table 1. There are, however, four instances in which a more narrowly
23 defined cost avoidance methodology has been relied upon, as indicated in the next
24 section.

25 **B. COST AVOIDANCE METHODOLOGY**

26 The four cost analyses described below are savings estimates that were
27 developed using a more narrowly defined cost avoidance methodology.

28 **1. DBMC Window Service Unit Cost Savings Estimate**

29 The DBMC window service unit cost savings estimate is calculated using the
30 same methodology described in Docket No. R2001-1, USPS-T-25, and is shown in

1 USPS-LR-K-46, page 27. First, the cost distribution between Parcel Select and Non
2 Parcel Select window service costs is calculated by witness Cutting (USPS-T-26) in
3 USPS-LR-J-86. The distribution percentages are then applied to base year window
4 service costs. Base year unit costs are obtained by dividing the Parcel Select and Non
5 Parcel Select base year costs by the corresponding base year volumes. Test year
6 costs are calculated by multiplying the base year unit costs by a piggyback factor and
7 wage adjustment factor. This latter factor is equal to the test year window service wage
8 rate divided by the base year window service wage rate. The DBMC window service
9 savings estimate is then calculated to be the difference between the Non Parcel Select
10 window service unit cost estimate and the Parcel Select window service unit cost
11 estimate.

12 **2. BMC Presort Mail Processing Unit Cost Savings Estimate**

13 The BMC presort mail processing unit cost savings estimate is calculated in
14 USPS-LR-K-46, page 24. The savings estimate is measured to be the mail processing
15 unit cost difference between a nonpresorted (inter-BMC) mail piece and a presorted
16 mail piece. The nonpresorted costs have been taken from two other Parcel Post cost
17 models in USPS-LR-K-46: the machinable origin BMC costs and the destinating BMC
18 Postal Pak unloading costs are taken from the cost model on page 8, and the NMO
19 origin BMC cost and the destinating BMC pallet unloading costs are taken from the
20 model on page 9.

21 The BMC presort costs for machinable parcels and NMOs are calculated
22 separately in USPS-LR-K-46, page 25, using the mail flow cost model methodology
23 described earlier in this testimony on pages 5 and 6. The operations in the model have
24 been changed to reflect the fact that BMC presorted parcels only need to be
25 crossdocked at the origin BMC. In addition, the conversion factors have been changed
26 to accommodate BMC presort requirements.

27 On page 24 of USPS-LR-K-46, the machinable and NMO BMC presort model
28 costs are subtracted from the machinable and NMO nonpresorted model costs. These
29 figures are then weighted together using the percentage distribution of inter-BMC
30 machinable and NMO parcels.

³ The costs within the proportional cost pools represent the tasks that were included in the models.

3. OBMC Unit Cost Savings Estimate

The Origin BMC (OBMC) cost savings consists of two estimates. The first estimate is the cost an OBMC parcel avoids by being entered at the origin BMC. Since an OBMC parcel avoids costs at the facilities upstream from the BMC, these costs are equivalent to the costs a DBMC parcel avoids, including window services costs.⁴ The second estimate relates to the fact that OBMC parcels are presorted by destination BMC. These avoided costs are the same as the BMC-presorted parcel unit cost savings. Therefore, the estimated unit costs avoided by an OBMC parcel are the sum of the DBMC unit cost savings estimate and the BMC presort unit cost savings estimate.

4. Pre-Barcode Unit Cost Savings Estimate

On the Primary Parcel Sorting Machine (PPSM), pre-barcode parcels and non-barcode parcels are currently processed differently. For non-barcode parcels, a PPSM clerk must key the 5-digit ZIP Code found on the parcel. In contrast, the clerk must simply position a pre-barcode parcel so that the scanners can read the barcode. The cost savings estimate associated with pre-barcode parcels is found in USPS-LR-K-46, page 26, and is derived using productivity figures that reflect these task differences.

The Parcel Post cost estimates are summarized below in Table 1.

⁴ Although both the DBMC and OBMC parcels avoid costs upstream from the BMC, DBMC parcels avoid those costs in comparison to intra-BMC parcels while OBMC parcels avoid those costs compared to inter-BMC parcels.

1 **TABLE 1: USPS PARCEL POST COST ESTIMATES**

2

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates (For Final Adjustments)	
Aggregate Inter-BMC	\$ 2.174
Aggregate Intra-BMC	\$ 1.833
Aggregate DBMC	\$ 1.240
Aggregate DSCF	\$ 0.638
Aggregate DDU	\$ 0.291
Mail Processing Unit Cost Savings Estimates	
Aggregate BMC Presort (Inter-BMC Benchmark)	\$ 0.255
Machinable Intra-BMC (Machinable Inter-BMC Benchmark)	\$ 0.288
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.531
Aggregate DSCF (DBMC Benchmark)	\$ 0.598
Aggregate DDU (DBMC Benchmark)	\$ 0.946
Window Service Unit Cost Savings Estimate	
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.200
NMO Additional Mail Processing Unit Cost Estimates	
Inter-BMC NMO (Machinable Inter-BMC Benchmark)	\$ 4.936
Intra-BMC NMO (Machinable Intra-BMC Benchmark)	\$ 3.815
DBMC NMO (Machinable DBMC Benchmark)	\$ 2.416
Oversize Additional Mail Processing Unit Cost Estimates	
Inter-BMC Oversize (Inter-BMC NMO Benchmark)	\$ 14.297
Intra-BMC Oversize (Intra-BMC NMO Benchmark)	\$ 11.413
DBMC Oversize (DBMC NMO Benchmark)	\$ 5.755
DSCF Oversize (DBMC NMO Benchmark)	\$ 3.738
DDU Oversize (DBMC NMO Benchmark)	\$ 0.456
Other Mail Processing Cost Estimates	
Aggregate OBMC (Inter-BMC Benchmark) Unit Cost Savings Estimate	\$ 1.061
NMO 3-Digit DSCF Additional Unit Cost Estimate (Aggregate DSCF Benchmark)	\$ 1.191
Pre-Barcode Unit Cost Savings Estimate (Non-Barcoded Parcel Benchmark)	\$ 0.030

1 V. BOUND PRINTED MATTER COST ESTIMATES

2 The Bound Printed Matter (BPM) cost estimates are displayed in Table 2 below.
3 A cost avoidance methodology is relied upon to develop estimates for the Destination
4 Bulk Mail Center (DBMC), Destination Sectional Center Facility (DSCF), Destination
5 Delivery Unit (DDU), and carrier route presort BPM rate categories. In addition, a flat-
6 parcel cost differential is calculated using a methodology similar, but not identical, to
7 that relied upon in Docket No. R2001-1.

8 The DBMC mail processing unit cost savings estimate has been developed using
9 a methodology identical to that used in Docket No. R2001-1. The percentage of
10 outgoing BMC costs that are avoided by DBMC parcels is first calculated in USPS-LR-
11 K-46, page 35. That percentage is then used as an input to the analysis conducted in
12 USPS-LR-K-46, page 36. Test year outgoing BMC, ASF, and non-BMC costs from
13 USPS-LR-K-86 are also used as inputs to this analysis. The avoided outgoing BMC
14 costs are calculated by multiplying the percentage from page 35 by the total test year
15 outgoing BMC costs. The total avoided costs in the test year are calculated by adding
16 the avoided test year outgoing BMC costs to the outgoing non-BMC costs and a portion
17 of the outgoing ASF costs. The DBMC mail processing unit cost savings estimate is
18 then calculated by dividing the total avoided test year costs by the volume of mail
19 entered upstream from the BMC.

20 The DSCF mail processing unit cost savings estimate is calculated using the
21 same approach relied upon in Docket No. R2001-1. This estimate is calculated to be
22 the cost difference between the DBMC mail flow cost model and the DSCF mail flow
23 cost model found in USPS-LR-K-46, pages 33 and 34, respectively. The structure of
24 these models is described in Parcel Post section IV.A. above.

25 The DDU mail processing unit cost savings estimate is measured in comparison
26 to a DBMC benchmark. Given that the BPM DBMC mail flow cost model measures
27 costs up to the point where BPM DDU would begin incurring costs, the total cost
28 savings are equivalent to the DBMC modeled costs. The DDU mail processing unit cost
29 savings estimate is therefore equivalent to the DBMC model cost found in USPS-LR-K-
30 46, page 33.

1 The carrier route presort unit cost savings estimate methodology is also identical
 2 to that relied upon in Docket No. R2001-1. This estimate is calculated to be the cost
 3 difference between carrier route presort mail compared to basic presort mail. The
 4 savings are driven by the fact that carrier route presort parcels do not have to be sorted
 5 to the carrier route at the destination facility. The analysis can be found in USPS-LR-K-
 6 46, page 37.

7 A flat-parcel cost differential is again calculated in this docket, but it has been
 8 necessary to revise the cost methodology due to changes that were instituted as a
 9 result of recent carrier cost studies.⁵ In Docket No. R2001-1, elemental load costs were
 10 used as a basis for the analysis. The Postal Service, however, no longer isolates
 11 elemental load costs. Instead, elemental load costs and access costs are now part of
 12 what is called "delivery activities" costs. Delivery activities costs are therefore used in
 13 the analysis found in USPS-LR-K-46, page 38. The total base year delivery activities
 14 costs by shape were taken from USPS-LR-K-5. Base year unit costs by shape were
 15 calculated by dividing the total costs by the corresponding GFY 2004 RPW volumes.
 16 These data were used to determine the percentage of base year costs by shape.
 17 Those percentages were then applied to total test year delivery activities costs, which
 18 were obtained from witness Waterbury (USPS-T-10). The total test year costs by shape
 19 were then divided by the GFY 2004 RPW volumes to get test year unit costs by shape.
 20 The flat-parcel cost differential was calculated to be the difference between the test year
 21 parcel unit cost and the test year flat unit cost.

22 The BPM cost estimates are summarized below in Table 2.

23
 24 **TABLE 2: USPS BOUND PRINTED MATTER COST ESTIMATES**
 25

<u>Category Description</u>	<u>Cost Estimate</u>
DBMC Unit Cost Savings Estimate (Non Dropship Benchmark)	\$ 0.312
DSCF Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.334
DDU Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.475
Carrier Route Presort Unit Cost Savings Estimate (Basic Presort Benchmark)	\$ 0.091
Flats - Parcel Cost Differential	\$ 0.115

⁵ The PRC version of the data in USPS-LR-K-103, however, relies on a methodology identical to that used in Docket No. R2001-1.

1 **VI. MEDIA MAIL / LIBRARY MAIL COST ESTIMATES**

2 The Media Mail / Library Mail cost estimates are shown in Table 3 below. A
 3 hybrid cost methodology is relied upon to develop total mail processing unit cost
 4 estimates for the single-piece, basic presort, and 5-digit presort rate categories. These
 5 estimates are then used to calculate mail processing unit costs savings estimates for
 6 the basic presort and 5-digit presort rate categories.

7 A combination of mail flow cost models and CRA mail processing unit cost
 8 estimates by shape are used to develop the estimates by rate category, similar to what
 9 was described on pages 5 and 6 above for Parcel Post. The one exception is that the
 10 CRA mail processing unit cost by shape estimate represents the aggregate costs for
 11 Media Mail and Library Mail, which have identical rate structures. The basic presort and
 12 5-digit presort mail processing unit cost savings estimates are calculated by subtracting
 13 the total mail processing unit cost estimates for each rate category from the total mail
 14 processing unit cost estimate for the single-piece benchmark.

15 The Media Mail / Library Mail cost estimates are summarized in Table 3 below.

16

17 **TABLE 3: USPS MEDIA MAIL / LIBRARY MAIL COST ESTIMATES**

18

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates	
Single-Piece	\$ 0.983
Basic Presort	\$ 0.669
5-Digit Presort	\$ 0.543
Mail Processing Unit Cost Savings Estimates	
Basic Presort (Single-Piece Benchmark)	\$ 0.314
5-Digit Presort (Single-Piece Benchmark)	\$ 0.441

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1 **VII. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY**

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

8 The comparison required by this exercise cannot be equated with
9 sponsoring the pre-existing methodology. It merely identifies and gives
10 context to the proposed change, serving as a benchmark so that the
11 impact can be assessed. ... [W]itnesses submitting testimony under Rule
12 53(c) sponsor the proposed methodological changes, not the pre-existing
13 methodology. That they may be compelled to reference the pre-existing
14 methodology does not mean that they are sponsoring it. Order No. 1380
15 (August 7, 2003) at 7.

16 Therefore, although I may be compelled to refer to the PRC methodologies and
17 versions corresponding to the Postal Service proposals which are the subject of my
18 testimony, my testimony does not sponsor those PRC materials.

19 The PRC version of the parcels cost models are contained in USPS-LR-K-103.
20 The cost models contained in USPS-LR-K-103 are expressed in the same format as the
21 postal versions found in USPS-LR-K-46, with the exception that seven cost inputs have
22 changed. The PRC version of the parcels costs models rely on revised piggyback
23 factors (USPS-LR-K-98), CRA mail processing unit cost estimates by shape (USPS-LR-
24 K-99), volume variability factors (USPS-T-11, Table 5), premium pay factors (USPS-LR-
25 K-100), base year cost data (USPS-LR-K-93), test year cost data (USPS-LR-K-96), and
26 Parcel Post window service costs and Bound Printed Matter mail processing costs
27 (USPS-LR-K-109). All other cost model inputs are identical for both the postal and PRC
28 versions of the parcels cost models.

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TABLE 4: PRC PARCEL POST COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates (For Final Adjustments)	
Aggregate Inter-BMC	\$ 2.472
Aggregate Intra-BMC	\$ 2.060
Aggregate DBMC	\$ 1.414
Aggregate DSCF	\$ 0.715
Aggregate DDU	\$ 0.332
Mail Processing Unit Cost Savings Estimates	
Aggregate BMC Presort (Inter-BMC Benchmark)	\$ 0.304
Machinable Intra-BMC (Machinable Inter-BMC Benchmark)	\$ 0.351
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.582
Aggregate DSCF (DBMC Benchmark)	\$ 0.695
Aggregate DDU (DBMC Benchmark)	\$ 1.078
Window Service Unit Cost Savings Estimate	
Machinable DBMC (Machinable Intra-BMC Benchmark)	\$ 0.241
NMO Additional Mail Processing Unit Cost Estimates	
Inter-BMC NMO (Machinable Inter-BMC Benchmark)	\$ 5.528
Intra-BMC NMO (Machinable Intra-BMC Benchmark)	\$ 4.234
DBMC NMO (Machinable DBMC Benchmark)	\$ 2.748
Oversize Additional Mail Processing Unit Cost Estimates	
Inter-BMC Oversize (Inter-BMC NMO Benchmark)	\$ 15.713
Intra-BMC Oversize (Intra-BMC NMO Benchmark)	\$ 12.489
DBMC Oversize (DBMC NMO Benchmark)	\$ 6.421
DSCF Oversize (DBMC NMO Benchmark)	\$ 4.102
DDU Oversize (DBMC NMO Benchmark)	\$ 0.484
Other Mail Processing Cost Estimates	
Aggregate OBMC (Inter-BMC Benchmark) Unit Cost Savings Estimate	\$ 1.208
NMO 3-Digit DSCF Additional Unit Cost Estimate (Aggregate DSCF Benchmark)	\$ 1.355
Pre-Barcode Unit Cost Savings Estimate (Non-Barcoded Parcel Benchmark)	\$ 0.036

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TABLE 5: PRC BOUND PRINTED MATTER COST ESTIMATES

<u>Category Description</u>	<u>Cost Estimate</u>
DBMC Unit Cost Savings Estimate (Non Dropship Benchmark)	\$ 0.391
DSCF Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.386
DDU Unit Cost Savings Estimate (DBMC Benchmark)	\$ 0.551
Carrier Route Presort Unit Cost Savings Estimate (Basic Presort Benchmark)	\$ 0.109
Flats - Parcel Cost Differential	\$ 0.078

1 **TABLE 6: PRC MEDIA MAIL / LIBRARY MAIL COST ESTIMATES**
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<u>Category Description</u>	<u>Cost Estimate</u>
Total Mail Processing Unit Cost Estimates	
Single-Piece	\$ 1.135
Basic Presort	\$ 0.768
5-Digit Presort	\$ 0.611
Mail Processing Unit Cost Savings Estimates	
Basic Presort (Single-Piece Benchmark)	\$ 0.368
5-Digit Presort (Single-Piece Benchmark)	\$ 0.525

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