

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY
OF
JAMES W. PAGE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

AUTOBIOGRAPHICAL SKETCH	0
I. PURPOSE AND SCOPE OF TESTIMONY	1
II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION	1
A. Introduction	2
B. Methodology	3
C. Results	3
IV. CERTIFICATE OF MAILING	3
A. Introduction	3
B. Methodology	4
C. Results	4
V. CORRECTION OF MAILING LISTS	5
A. Introduction	5
B. Methodology	5
C. Results	5
VI. DELIVERY CONFIRMATION	5
A. Overview	5
B. Methodology	6
C. Results	7
VII. EXPRESS MAIL RATE CATEGORY DIFFERENTIALS	9
A. Introduction	9
B. Methodology	9
C. Results	9
VIII. INSURANCE	10
A. Introduction	10
B. Methodology	10
C. Results	10
IX. MONEY ORDER INQUIRY	11
A. Introduction	11
B. Methodology	11
C. Result	11
X. PERIODICALS APPLICATIONS	11
A. Introduction	11
B. Methodology	12
C. Results	12
XI. P.O. BOX KEY DUPLICATION AND LOCK CHANGES	12
A. Introduction	12
B. Methodology	12
C. Results	13
XII. RESTRICTED DELIVERY	13
A. Introduction	13
B. Methodology	13
C. Results	14
XIII. RETURN RECEIPT COST UPDATES	14
A. Overview	14
B. Methodology	14

C. Results	15
XIV. SIGNATURE CONFIRMATION	15
A. Overview	15
B. Methodology	16
C. Results	18
XV. STAMPED CARDS	18
A. Introduction	18
B. Methodology	19
C. Results	19
XVI. STAMPED ENVELOPES	19
A. Introduction	19
B. Methodology	19
C. Results	20
XVII. ZIP CODING OF MAILING LISTS	20
A. Introduction	20
B. Methodology	21
C. Results	21
XVIII. PICKUP ON-DEMAND [®] SERVICE	21
A. Introduction	21
B. Methodology	21
XIX. FINAL ADJUSTMENTS	22
A. Introduction	22
B. Methodology	23
(1) Mail Mix	23
(2) Negotiated Service Agreements	24
(3) Delivery Confirmation	24
(4) Insurance	24
(5) Priority Mail Adjustments	25
XX. CONFIRM - SUMMARY OF COST COMPONENTS AND RESULTS	27
A. Cost Components	27
B. Cost Analysis Results	28
C. Costing Methodology	29
D. Results	29
XXI. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY	29

Category 2 Library Reference: USPS-LR-L-59

1 AUTOBIOGRAPHICAL SKETCH

2 My name is James W. Page. I am an Operations Research Analyst in Special
3 Studies, part of Corporate Financial Planning in the Finance Department at
4 Headquarters. I have worked for the Postal Service for 40 years in various positions,
5 including as a Principal Economist in International Costing and Pricing; a Customer
6 Service Analyst in the Office of Consumer Affairs; an Operations Performance Analyst
7 in the Office of Operations Performance; and an Economist and an Operations
8 Research Analyst in the Office of Rates and the Office of the Controller. In my current
9 position, I assist in the training of new analysts and work on the costing of various
10 Special Services.

11 I presented costing testimony on selected Special Services and Final Adjustments
12 in Docket No. R2005-1. I previously testified before this Commission in: Docket No.
13 MC79-2 (Express Mail Metro Service Proposal), Docket No. MC79-4 (Merchandise
14 Return Service), Docket No. MC81-5 (Express Mail Forwarding and Address Correction
15 Service), Docket No. R83-1 (E-COM Rate and Classification Changes), and Docket No.
16 MC84-2 (E-COM Service). I contributed to the First-Class Mail Presort, Third Class
17 Presort, and Express Mail cost studies (used in three cases before the Postal Rate
18 Commission), Electronic Mail Introduction (Docket No. MC78-3), Sale of ECOM, Post
19 Office Boxes, Express Mail filings, and Special Services updates. While working for the
20 Postal Service in International, I worked together with people from the Postal Rate
21 Commission on international postal products. I have a Bachelor of Science degree in
22 Systems Management from Rockhurst College, a Jesuit College in Kansas City,
23 Missouri.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of this testimony is to present estimated test year volume variable
3 costs for Express Mail, Confirm, and various special services, and to develop final
4 adjustments for the rollforward process. The cost analyses discussed in my testimony
5 are documented in USPS-LR-L-59, which I sponsor.

6 My test year cost estimates are provided to witnesses Smith (USPS-T-13),
7 Scherer (USPS-T-33), Berkeley (USPS-T-39), Mitchum (USPS-T-40), and Kaneer
8 (USPS-T-41). The Final Adjustments are used by witnesses Loutsch (USPS-T-6),
9 Waterbury (USPS-T-10), Pifer (USPS-T-18), and Mayes (USPS-T-25).

10

11 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

12

13 I develop my cost estimates and final adjustments using inputs from the following
14 witnesses and sources in this case: witness Loutsch (USPS-T-6) provides productive
15 hourly wage rates for city and rural carriers (USPS-LR-L-50); witness Thress (USPS-T-
16 7) provides test year volumes (USPS-LR-L-66); witness Milanovic (USPS-T-9) provides
17 base year revenue (USPS-LR-L-4), base year costs, window service costs, waiting time
18 costs, and distribution key inputs (USPS-LR-L-5); witness Waterbury (USPS-T-10)
19 provides rollforward costs (USPS-LR-L-7); witness Van-Ty-Smith (USPS-T-11)
20 provides MODS based costs, hourly wage rates for window and box section clerks, and
21 window costs for Delivery Confirmation (USPS-LR-L-55); witness Smith (USPS-T-13)
22 provides piggyback factors (USPS-LR-L-52); witness Miller provides flats costs (USPS-
23 T-20,USPS-LR-L-43) and Parcel Post costs (USPS-T-21,USPS-LR-L-46); witness
24 Abdirahman (USPS-T-22) provides letter costs (USPS-LR-L-48); witness Nieto (USPS-
25 T-24) provides window service transaction times (USPS-LR-L-79); witness Mayes

1 (USPS-T-25) provides Parcel Post transportation and vehicle service driver costs
2 (USPS-LR-L-89); witness Cutting (USPS-T-26) provides costs of address correction
3 service (USPS-LR-L-62); witness Talmo (USPS-T-27) provides Standard Mail
4 Enhanced Carrier Route costs (USPS-LR-L-84); witness Kelley (USPS-T-30) provides
5 delivery costs (USPS-LR-L-67); witness Scherer (USPS-T-33) provides Priority Mail
6 adjustments for the impacts of dim weight pricing and the Priority Mail Flat Rate Box
7 (USPS-LR-L-119 and USPS-LR-L-120) respectively; and witness Kiefer (USPS-T-37)
8 provides Parcel Post adjustments (USPS-LR-L-82). Billing determinants are obtained
9 from (USPS-LR-L-77).

10 III. CALLER SERVICE

11 A. Introduction

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

19 A customer using Caller Service is assigned a “phantom” P.O. box number that
20 is used for the purposes of sorting the mail (i.e., the box does not physically exist). The
21 Caller Service customer is charged a semi-annual fee for each P.O. Box number or
22 separation. Upon payment of an annual fee, the Postal Service allows customers to

1 reserve caller box numbers for future use. When a reserved caller box number is
2 activated, the customer is assessed the semi-annual caller service fee.

3 B. Methodology

4 The cost methodology for Caller Service has changed from the methodology in
5 Docket No. R2005-1 (USPS-T-42). Witness Smith (USPS-T-13) now develops total
6 Caller Service costs using his estimates of window service and platform delivery costs
7 and my estimates of storage and accounting costs. I also present the reserve number
8 cost estimate. See USPS-LR-L-59, Attachment 1 for the cost model I use, which
9 includes updated hourly wage rates and piggyback factors for the test year.

10 C. Results

11 The estimated test year costs relating to Caller Service are shown in Table 1
12 below. The estimated test year cost per reserved caller number is \$21.15, using
13 window service accounting costs as a proxy.

14
15 Table 1: Test Year Costs Related to Caller Service

Activity	Annual Cost (Direct and Indirect)
Window Service Accounting	\$21.15
Storage	\$145.53

16 17 18 IV. CERTIFICATE OF MAILING

19 20 A. Introduction

21 Certificate of mailing service provides evidence that mail has been presented
22 to the Postal Service for mailing. Certificate of mailing service does not provide a
23 record of delivery. Form 3606 is used for a certificate of mailing in bulk to specify the
24 number of pieces mailed. This certificate is provided only for a mailing of identical

1 pieces of First-Class Mail, Standard Mail, or Package Services. This certificate states
 2 only the total number of articles mailed and does not certify each piece separately.
 3 Form 3817 is used as a certificate for a single piece of First-Class Mail (including
 4 Priority Mail) or Package Services. Facsimile forms also may be used. When
 5 requesting a certificate of mailing for three or more pieces presented at one time, a
 6 mailer may use Form 3877 (firm sheet) or a facsimile, subject to payment of the
 7 applicable fee for each item listed. Facsimile Forms 3877 must contain the same
 8 information as the postal-provided form. The firm sheets become the sender's receipts.

9 B. Methodology

10 The certificate of mailing cost methodology is unchanged from the
 11 methodology used in Docket No. R2005-1 (USPS-T-22). I have updated hourly wage
 12 rates and piggyback factors for the test year. See USPS-LR-L-59, Attachment 2 for the
 13 certificate of mailing cost model.

14 C. Results

15 Table 2 below shows the estimated test year costs resulting from the certificate
 16 of mailing study.

17
 18 Table 2: Test Year Certificate of Mailing Costs

Individual Pieces	
Form 3817, Original (no duplicate)	\$0.74
Form 3817, Duplicate	\$0.58
Form 3877, Original - 13 pieces/cost per piece	\$0.26
Bulk Quantities	
Form 3606, Original - first 1000 pieces	\$3.73
Each Additional 1000 pieces	\$0.37
Form 3606, Duplicate	\$0.50

V. 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 presented in Docket No. R2005-1 (USPS-T-22). I have updated wage rates, piggyback factors, and the First-Class Mail single piece cost. See USPS-LR-L-59, Attachment 3 for the correction of mailing lists cost study.

C. Results

The estimated test year cost per name on a mailing list is 31.8 cents.

VI. DELIVERY CONFIRMATION

A. Overview

Delivery Confirmation service provides the mailer with information about the date and time a mailpiece was delivered or delivery was attempted. Delivery Confirmation service is offered at the time of mailing in two forms: the electronic option

1 and the manual (or retail) option. In the electronic option, the mailer creates and
2 applies a Delivery Confirmation barcode to the mailpiece, and receives information
3 about Delivery Confirmation items electronically. Pieces mailed under the electronic
4 option must be identified in an electronic manifest provided to the Postal Service. In
5 the manual option, customers purchase Delivery Confirmation service through the retail
6 window, and obtain delivery information by telephone or computer. Delivery
7 Confirmation service is available for Priority Mail, and for parcels sent using First-Class
8 Mail, Package Services, with the electronic option available only for Standard Mail and
9 Parcel Select parcels.

10 B. Methodology

11 I made several changes to the methodology employed in Docket No. R2005-1
12 (USPS-T-24). My testimony now includes costing for Delivery Confirmation in the base
13 year, 2005, and test year, since these calculations are needed to develop final
14 adjustments for special services.

15 I obtained improved estimates of the unit volume variable costs for Delivery
16 Confirmation acceptance by using base year unit window costs multiplied by a
17 piggyback factor. Acceptance costs are now distributed between the manual and
18 electronic products since it has been determined that some electronic customers print
19 and adhere the electronic label(s) to articles, and then submit them at the window,
20 thereby incurring window acceptance costs that were not included as part of the
21 electronic product costs in earlier dockets.

22 My testimony also reflects the availability of more current information. Wage
23 rates, piggyback factors, and costs for corporate call management, postmasters,

1 information systems, and supplies have all been updated. Updated operational
2 information has also been incorporated. Scanning times at delivery were determined
3 using witness Davis' application of Methods Time Measurement (MTM) time standards
4 in Docket No. R2000-1, combined with the average time required per scan of 2.46
5 seconds developed by witness Treworgy (Docket No. R97-1, USPS-T-22, Appendix A).
6 The MTM analysis was applied to each of three categories of personnel (city carriers,
7 box section clerks, and window clerks) who deliver Delivery Confirmation mail pieces.
8 Library Reference I-108/R2000-1, at 1-9, presents the applicable MTM standards for
9 each of these three categories. For delivery of Delivery Confirmation mail pieces by
10 rural carriers, the time permitted under the labor agreement is used. Test Year window
11 acceptance costs for manual Delivery Confirmation service have been estimated in this
12 testimony by calculating base year unit costs, multiplying by the ratio of test year wage
13 rate to base year wage rate, and then multiplying by a piggyback factor.

14 Manual Delivery Confirmation customers can receive Delivery Confirmation
15 information through either the Internet or the Corporate Call Management (CCM)
16 system. Within the CCM system, information is provided in two ways: (1) the
17 interactive voice response (IVR) system and (2) customer service agents. Call center
18 data are provided by the Expedited/Package Services and Product Information
19 Requirements departments. See USPS-LR-L-59, Attachments 4A – 4E, for the delivery
20 Confirmation Cost Model.

21 C. Results

22 Table 3 presents the total test year volume variable Delivery Confirmation
23 costs for Priority Mail electronic service, Priority Mail manual service, Package Services

1 electronic service, Package Services manual service, Parcel Select electronic service,
 2 parcels in the First-Class Mail Letters and Sealed Parcels subclass electronic service,
 3 parcels in the First-Class Mail Letters and Sealed Parcels subclass manual service,
 4 and Standard Mail electronic service. This testimony also presents the Priority Mail and
 5 Parcel Select Delivery Confirmation costs net of the costs for Priority Mail and Parcel
 6 Select electronic service, since those costs are included in Priority Mail and Parcel
 7 Select costs and paid for by Priority Mail and Parcel Select postage, rather than by the
 8 Delivery Confirmation service fees.

<u>Cost Category</u>	<u>Priority Mail Electronic</u>	<u>Priority Mail Manual</u>	<u>First-Class Letters/Sealed Parcels Electronic</u>	<u>First-Class Letters/Sealed Parcels Manual</u>
Acceptance	\$0.0285	\$0.4919	\$0.0285	\$0.4919
Delivery	\$0.1153	\$0.1153	\$0.1153	\$0.1153
Postmasters	\$0.0000	\$0.0030	\$0.0008	\$0.0036
Corporate call management	\$0.0000	\$0.0787	\$0.0000	\$0.0787
Information systems	\$0.0029	\$0.0021	\$0.0029	\$0.0021
Supplies	\$0.0000	\$0.0045	\$0.0000	\$0.0045
Total volume variable cost	\$0.1467	\$0.6955	\$0.1476	\$0.6961
Less: Cost allocated to base product	\$0.1467	\$0.1467	\$0.0000	\$0.0000
Net volume variable cost	\$0.0000	\$0.5487	\$0.1476	\$0.6961

<u>Cost Category</u>	<u>Standard Mail Electronic</u>	<u>Package Services Electronic</u>	<u>Package Services Manual</u>	<u>Parcel Select Electronic</u>
Acceptance	\$0.0285	\$0.0285	\$0.4919	\$0.0285
Delivery	\$0.1153	\$0.1153	\$0.1153	\$0.1153
Postmasters	\$0.0008	\$0.0008	\$0.0036	\$0.0000
Corporate call management	\$0.0000	\$0.0000	\$0.0787	\$0.0000
Information systems	\$0.0029	\$0.0029	\$0.0021	\$0.0029
Supplies	\$0.0000	\$0.0000	\$0.0045	\$0.0000
Total volume variable cost	\$0.1476	\$0.1476	\$0.6961	\$0.1476
Less: Cost allocated to base product	\$0.0000	\$0.0000	\$0.0000	\$0.1476
Net volume variable cost	\$0.1476	\$0.1476	\$0.6961	\$0.0000

1
2 VII. EXPRESS MAIL RATE CATEGORY DIFFERENTIALS

3
4 A. Introduction

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

11 B. Methodology

12 My testimony updates witness Nelson's cost methodology (Exhibit USPS-
13 19D/R97-1) using test year piggyback factors and wage rates. See USPS-LR-L-59,
14 Attachment 5 for the Express Mail rate category cost differentials study.

15 C. Results

16 Table 4 shows the estimated test year cost differentials between Express Mail rate
17 categories. The delivery-related costs associated with different rate categories are
18 determined through the unit costs associated with different delivery methods. The
19 differences between the delivery-related costs for each rate category and the mean
20 delivery-related cost per piece, \$1.34, provides the bases for establishing the "per piece"
21 cost differentials across rate categories.

22 Table 4: Cost Differentials Across Express Mail Categories

Rate Category	Delivery-Related Cost Per Piece	Cost Per Piece Differential From Mean
PO-to-PO	\$0.12	(\$1.22)
PO-to-Addressee	\$1.35	\$0.02
Custom Designed	\$0.20	(\$1.14)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

VIII. INSURANCE

A. Introduction

Insurance is a special service that provides indemnity coverage for lost, rifled or damaged articles. As proposed by witness Mitchum (USPS-T-41) in this docket, insurance for up to \$200 in value would not require a signature, while insurance for over \$200 in value would require a signature. All insured pieces would have a barcode and be scanned at delivery.

B. Methodology

The Insurance cost methodology is changed to reflect the description above. Specifically, all insured pieces would be barcoded and scanned at delivery, and pieces insured for above \$200 would require the recipient's signature. Costs reflecting these changes include the additional costs for scanning pieces insured from \$50 or less, and the cost savings from not obtaining a signature for pieces insured for between \$50.01 and \$200.

For bulk insurance, I develop only one cost savings estimate, since the cost savings would no longer depend on the insurance value. The appropriate window transaction time has been updated based on the new window service field study presented by witness Nieto (USPS-T-24).

C. Results

Table 5 shows the estimated costs resulting from the insurance cost study. These results do not include indemnity costs as in past testimony which instead are included in attachment 6 of USPS-LR-L-59.

Table 5: Estimated Insurance Costs

Signature	\$2.52
No Signature	\$1.32
Bulk Insurance Cost Savings	\$0.78

IX. MONEY ORDER INQUIRY

A. Introduction

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

B. Methodology

The Money Order Inquiry cost methodology has changed from the methodology of witness Hatcher in Docket No. R2005-1 (USPS-T-22). Instead of using a cost ratio, volume data are used to calculate the base year to test year inflation factor. Additionally, form PS6401 now can be scanned, so the unit cost per form has been updated. I have also updated the First-Class Mail processing cost, the test year rollforward cost, the base year CRA cost, and money order volume. See USPS-LR-L-59, Attachment 7 for the money order inquiry cost study.

C. Result

The estimated cost for a money order inquiry is \$4.92.

X. PERIODICALS APPLICATIONS

A. Introduction

A publisher initiates the process of obtaining authorization to mail at Periodicals rates by filing a Periodicals Application for Original Entry (Form 3501) at the Post Office serving the publisher's location. Upon receipt, the postmaster or other postal employee visits the publisher's office to verify information provided in the application. The Post Office then sends the application to the district office for initial review and processing.

1 Following an initial review, the district office forwards the application to the Pricing and
 2 Classification Service Center (PCSC) for a detailed review and coordination with the
 3 Library of Congress. A PCSC analyst issues an approval or denial based on the above
 4 analyses.

5 B. Methodology

6 I have added to the cost methodology for Periodicals applications an additional
 7 piggyback factor for clerks and mailhandlers. Wage rates for contractors have been
 8 replaced with PCSC wage rates since the PCSC is now responsible for the Periodicals
 9 application process. All other inputs have been updated. See USPS-LR-L-59, Attachment
 10 8 for the Periodicals application cost model.

11 C. Results

12 Table 6 shows the estimated test year costs for Periodicals Applications.

Table 6: Test Year Periodicals Application Costs

Periodicals Application Type	Total Test Year Cost per Application
Original Entry	\$468.03
Reentry	\$69.20
Additional Entry	\$51.62
News Agents	\$32.84

13

14 XI. P.O. BOX KEY DUPLICATION AND LOCK CHANGES

15

16 A. Introduction

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

20 B. Methodology

21 The cost methodology for Post Office Box Key and Lock Changes remains
 22 unchanged from that presented in Docket No. R2005-1 (USPS-T-22). I have updated
 23 wage rates, piggyback factors, window transaction times, the material cost, and the

1 distribution cost. See USPS-LR-L-59, Attachment 9, for the Post Office Box Key

2 Duplication and Lock Changes cost model.

3 C. Results

4 Table 7 shows the costs for providing additional post office box keys and for
5 changing post office box locks.

6 Table 7 - Post Office Box Key and Lock Change Service

Type of Service	Volume Variable Cost
Providing additional post office box key	\$4.20
Changing post office box lock	\$9.01

7 XII. RESTRICTED DELIVERY

8 A. Introduction

9 Restricted delivery service permits a mailer to direct delivery of an article only to
10 the addressee or addressee's authorized agent. The addressee must be an individual
11 specified by name. Under the Postal Service's proposal for insurance, restricted delivery
12 service would be available for (a) First-Class Mail (including Priority Mail) when purchased
13 at the time of mailing with certified mail, COD, insured mail (for more than \$200), or
14 Registered Mail service; (b) Standard Mail subject to the residual shape surcharge when
15 bulk insurance (for more than \$200) is purchased at the time of mailing; and (c) Package
16 Services when purchased at the time of mailing with COD or insured mail (for more than
17 \$200) service.

18 B. Methodology

19 The Restricted Delivery cost methodology is unchanged from the methodology of
20 witness Hatcher in Docket No. R2005-1 (USPS-T-22). I have updated wage rates,
21 piggyback factors and the cost of single-piece First-Class Mail. See USPS-LR-L-59,
22 Attachment 10.
23

1 C. Results

2 The estimated test year cost for restricted delivery is \$2.49.

3 XIII. RETURN RECEIPT COST UPDATES

4
5 A. Overview

6 Several options are available to return receipt users. In addition to the traditional
7 return receipts (green card), electronic return receipts, return receipts for merchandise,
8 and return receipts after mailing are available for purchase at the retail counter.

9 For the electronic return receipt, the customer purchases the service at the retail
10 window at the time of mailing. After mailing, the customer goes to www.usps.com, selects
11 “Track and Confirm,” enters the label number(s), selects “Request Return Receipt
12 (electronic)”, and then enters his/her name and email address. After delivery of the
13 accountable piece, the customer will automatically be sent, via email, the delivery date and
14 time information, and a digital image of the signature from the accountable mailpiece.

15 B. Methodology

16 For all return receipts, I rely on the methodology provided in USPS-T-24 in Docket
17 No. R2005-1. I updated costs with new wage rates, piggyback factors, and window
18 transaction times.

19 For return receipts after mailing, I calculate a single unit cost for the purchase
20 transaction (assuming all purchases occur at the retail window), and add the cost for
21 sending the return receipt (by fax, mail, or email).

22 For electronic return receipts, acceptance costs are based upon the return receipt
23 acceptance window transaction time used for traditional return receipts in prior dockets
24 (e.g., USPS-LR-K-60/R2005-1, page 72 – RR worksheet W-1). Witness Nieto’s new
25 window service field study (USPS-T-24) did not collect data on window times for electronic
26 return receipts. Moreover, using a transaction time greater than that used for traditional

1 return receipts (see USPS-LR-L-59) makes sense, since the purchase of an electronic
 2 return receipt requires the window clerk to explain the procedure for obtaining the
 3 signature by going online, and therefore requires additional time at the window compared
 4 to a traditional return receipt transaction.

5 The signature for an accountable mailpiece is collected at delivery on Form 3849,
 6 which is then scanned and stored electronically using the Electronic Signature Capture
 7 system. Since the electronic return receipt uses that signature, it causes no additional
 8 costs for delivery or scanning activities. Once the signature is electronically available in
 9 the system, and the customer has entered his/her email address as mentioned above, the
 10 electronic return receipt is sent via email to the customer. Unlike analysis contained in
 11 Docket No. R2005-1 (LR-K-60/R2005-1, Return Receipt sheet W-8), I assume that this
 12 email transaction contributes no costs to electronic return receipts. The details of these
 13 calculations are found in USPS-LR-L-59, Attachment 11.

14 C. Results

15 The table below provides the volume variable costs of return receipt services.

16 Table 8: Test Year Unit Volume Variable Costs for Return Receipts

Service	Cost
Return Receipts	
Non-Merchandise	\$1.46
After Mailing	\$2.33
Merchandise	\$2.68
Electronic Return Receipt	\$0.43

17

18 XIV. SIGNATURE CONFIRMATION

19 A. Overview

20 Signature Confirmation service provides the mailer with access to Delivery
 21 Confirmation information, and a copy of the recipient's signature upon request. Like
 22 Delivery Confirmation, Signature Confirmation is available only at the time of mailing, in

1 one of two forms: the electronic option and the manual (or retail) option. In the electronic
2 option, the mailer must create and apply a Signature Confirmation barcode to the
3 mailpiece, and the pieces must be identified on an electronic manifest provided to the
4 Postal Service. Delivery information for the electronic version is available by computer. In
5 the manual option, customers purchase Signature Confirmation service at the retail
6 window, and the Delivery Confirmation information is available by telephone or computer.
7 Under either option, customers may request the signature information via the Internet or
8 the call center. Eligible matter for Signature Confirmation includes Priority Mail, and
9 parcels sent in the Letters and Sealed Parcels subclass of First-Class Mail, or Package
10 Services.

11 B. Methodology

12 My testimony bases Signature Confirmation costs on Delivery Confirmation costs
13 except when they are operationally distinct. Specifically, Signature Confirmation
14 operations during delivery and the provision of information to customers differ from those
15 of Delivery Confirmation service.

16 The primary operational difference between Delivery Confirmation service and
17 Signature Confirmation service is that Signature Confirmation service requires collection of
18 the recipient's signature. Signature Confirmation costs include costs for acquiring the
19 recipient's signature on a Postal Service (PS) Form 3849, scanning the Form 3849
20 barcode, scanning the hardcopy signature into an electronic database, and providing a
21 copy of the signature upon the customer's request.

22 The need to obtain the recipient's signature causes the carrier to go to the door,
23 and wait to obtain the recipient's signature. The cost of these additional activities is
24 estimated using witness Davis' methodology (USPS-T-30/R2000-1) that starts with the
25 rural and city carrier unit delivery costs for Certified Mail (which requires a signature), and

1 subtracting the rural and city carrier unit delivery costs of simply delivering the host
2 mailpiece (the mailpiece on which Signature Confirmation is purchased). The Priority Mail,
3 Package Services, and Parcel Select products use Priority Mail delivery costs as a proxy
4 for the host mailpiece, while the First-Class Mail Letters and Sealed Parcels subclass and
5 Standard Mail products use the First-Class Mail Letters and Sealed Parcels (without cards)
6 delivery cost as a proxy for the host mailpiece cost. See USPS-LR-J-135/R2001-1, Input
7 Sheet B-4: Deviation Delivery, for the detailed calculations.

8 As established by witness Davis, Signature Confirmation has more scanning-
9 related time than Delivery Confirmation. In addition to the 2.46 seconds of scan time for
10 the mailpiece barcode in the Delivery Confirmation service, another 2.46 seconds has
11 been added for the time required to scan the Form 3849 barcode. In addition, the time to
12 return the scanner is included in the analysis, but not the time to retrieve the scanner since
13 this activity can be performed while the carrier is waiting for the addressee.

14 Unlike Delivery Confirmation electronic service, no window service costs are
15 included for Signature Confirmation electronic service, since there are too few Signature
16 Confirmation electronic pieces entered at the window to generate significant window
17 acceptance costs. The mailer applies the barcoded ID label to each item and generates
18 an electronic record of these items prior to acceptance. Acceptance costs for Signature
19 Confirmation manual service are the same as acceptance costs for Delivery Confirmation
20 manual service, since the underlying operational activities are identical.

21 Updated operational information on accessing information has been incorporated.
22 My testimony also reflects the availability of updated information for wage rates; piggyback
23 factors; call center/Internet information request percentages; email, mail, and fax signature
24 information percentages; operational changes in the process of sending signature
25 information to mailers; and costs for corporate call management, postmasters, information

1 systems, and supplies. In particular, I have added an input sheet (I-6) for call center and
 2 Internet statistics, which is used in the following two sheets (I-7 and I-8). See USPS-LR-L-
 3 59, Attachment 12, the Signature Confirmation cost model.

4 C. Results

5 Table 9 presents the total Signature Confirmation volume variable costs, both
 6 electronic and manual, for Priority Mail and parcels in Package Services, and for parcels in
 7 the Letters and Sealed Parcels subclass of First-Class Mail. For each option, the volume
 8 variable costs are presented by subclass. Priority Mail and Package Services costs are the
 9 same, and are therefore presented together.

10 Table 9: Test Year Signature Confirmation Unit Volume Variable Costs

Cost Category	Electronic		Manual	
	Priority Mail and Package Services	First-Class Letters and Sealed Parcels	Priority Mail and Package Services	First-Class Letters and Sealed Parcels
Acceptance	\$0.0000	\$0.0000	\$0.2380	\$0.2088
Delivery	\$1.1852	\$1.4116	\$1.1852	\$1.4116
Postmasters	\$0.0081	\$0.0081	\$0.0114	\$0.0114
Provision of Confirmation	\$0.0060	\$0.0060	\$0.0048	\$0.0048
Information systems	\$0.0029	\$0.0029	\$0.0021	\$0.0021
Supplies	\$0.0000	\$0.0000	\$0.0053	\$0.0053
Total volume variable cost	\$1.2022	\$1.4286	\$1.4467	\$1.6731

11 XV. STAMPED CARDS

13 A. Introduction

14 Stamped cards service allows firms and individuals to purchase cards already
 15 embossed with postage for the First-Class Mail single-piece card rate. Presently, four
 16 types of stamped cards are available: (1) single-cut, (2) single-sheet, (3) reply card, and
 17 (4) banded.

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

4 B. Methodology

5 Test year costs for stamped cards are based solely on contract prices negotiated
 6 with the U.S. Government Printing Office. These costs include materials, printing, and
 7 distribution. See USPS-LR-L59, Attachment 13A, for the Stamped cards cost model.

8 C. Results

Table 10: Test Year Stamped Card Costs

Stamped Card Style	Cost per Thousand	Cost per Card
Single Cut	\$12.00	\$0.012
Single Sheet	\$12.00	\$0.012
Reply Card	\$24.00	\$0.024
Banded	\$27.00	\$0.027

9 XVI. STAMPED ENVELOPES

11 A. Introduction

12 Stamped envelope service allows firms and individuals to purchase envelopes
 13 with preprinted postage. Printed stamped envelopes are an option in which the stamped
 14 envelope includes the customer's return address and other information.
 15

16 B. Methodology

17 The stamped envelope cost model consists of three components: (1)
 18 manufacturing costs, (2) distribution costs, and (3) selling costs. The methodology is
 19 unchanged from my methodology in Docket No. R2005-1 (USPS-T-23). I have updated
 20 the consumer price index, mail processing costs per carton, costs per cubic foot, test year
 21 rollforward costs, base year CRA costs, SFSC customer service costs, and contract costs.
 22 See USPS-LR-L-59, Attachment 13B, for the Stamped Envelopes cost model.

1 C. Results

2 Table 11: Test Year Stamped Envelope Costs

	SIZE	STYLE	BOX LOT OF 500 COST	SINGLES		SIZE	STYLE	BOX LOT OF 500 COST
PLAIN 10					PRINTED 9			
214100	10.00	Regular	\$8.56	\$0.0684	214300	9.00	Regular	\$16.06
215100	10.00	Regular	\$8.56	\$0.0684	215400	9.00	Window	\$17.78
215500	10.00	Regular	\$8.56	\$0.0684	PRINTED 6 3/4			
218300	10.00	Regular	\$8.53	\$0.0683	262500	6.75	Regular	\$23.29
214200	10.00	Window	\$9.64	\$0.0706	262700	6.75	Regular	\$12.09
215200	10.00	Window	\$9.64	\$0.0706	264100	6.75	Regular	\$12.09
PLAIN 9					265500	6.75	Regular	\$12.09
214300	9.00	Regular	\$11.09	\$0.0735	262800	6.75	Window	\$13.44
215400	9.00	Window	\$12.81	\$0.0769	264200	6.75	Window	\$13.25
PLAIN 6 3/4					BOX LOT OF 50 COST			
264100	6.75	Regular	\$6.76	\$0.0648	PRINTED HOUSEHOLD 10			
265500	6.75	Regular	\$6.76	\$0.0648	210100	10.00	Regular	\$2.46
264200	6.75	Window	\$7.92	\$0.0671	210500	10.00	Regular	\$2.47
PRINTED 10					210600	10.00	Window	\$2.58
214100	10.00	Regular	\$13.53		PRINTED HOUSEHOLD 9			
215100	10.00	Regular	\$13.53		210800	9.00	Regular	\$2.73
215500	10.00	Regular	\$13.53		210900	9.00	Window	\$2.90
216400	10.00	Regular	\$13.53		PRINTED HOUSEHOLD 6 3/4			
218300	10.00	Regular	\$13.50		260100	6.75	Regular	\$2.33
214200	10.00	Window	\$14.61		262500	6.75	Regular	\$2.33
215200	10.00	Window	\$14.60		264100	6.75	Regular	\$1.20
					262600	6.75	Window	\$2.45
					262700	6.75	Regular	\$1.21

3
4 XVII. ZIP CODING OF MAILING LISTS

5 A. Introduction

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

1 B. Methodology

2 The cost methodology presented is the same as found in Docket No. R2005-1
3 (USPS-LR-K-59) using updated piggyback factors, First-Class Mail single piece cards
4 costs, and wage rates. See USPS-LR-L-59, Attachment 15, for the Zip Coding of Mailing
5 Lists cost model.

6 C. Results

7 The estimated test year cost for ZIP Coding of Mailing Lists is \$65.84 per 1,000
8 cards.

9 XVIII. PICKUP ON-DEMAND[®] SERVICE

10 A. Introduction

11 Pickup On-Demand[®] Service is available for Express Mail, Priority Mail, and
12 single-piece rate Parcel Post, for a charge, when the pickup is requested by a customer
13 and cannot be accomplished as part of the carrier's normal delivery and collection duties,
14 nor is it on the normal line of travel of a delivery or collection route. A customer can
15 schedule a one-time pickup, or enter into a service agreement to obtain a recurring pickup.

16 B. Methodology

17
18 The cost methodology used to calculate the costs is unchanged from the
19 methodology presented in Docket No. R97-1 by witness Nelson (Docket No. R97-1, Exhibit
20 USPS-19E). The cost study develops costs for "On-Call Pickup," reflecting one-time
21 pickups, and "Scheduled Pickup," reflecting recurring pickups. I have updated that
22 methodology using test year piggyback factors and wage rates. See USPS-LR-L-59,
23 Attachment 6.

1 C. Results

Table 12: Test Year Pickup Costs

Type of Service	Volume Variable Cost
On-Call	\$12.96
Scheduled	\$11.70

2
3 XIX. FINAL ADJUSTMENTS

4
5 A. Introduction

6 The purpose of this section is to calculate rollforward final adjustments for FY
7 2006 and FY 2007, and for the test year (FY 2008) before rates (TYBR) and after rates
8 (TYAR). These adjustments are used by witness Waterbury (UPSP-T-10) to adjust costs
9 by subclass in the rollforward process. Witness Pifer (USPS-T-18) uses the final
10 adjustments by rate category and cost component in his development of incremental costs.
11 Witness Loutsch (USPS-T-6) adjusts rollforward expense estimates for final adjustments in
12 order to produce total expenses, the Test Year revenue requirement, and income
13 statements for FY 05 and the Test Year (see Exhibits USPS-6A and USPS-6N). Final
14 adjustments are needed because the rollforward process does not capture changes in the
15 mix of mail for rate categories and special services below the levels included in
16 CRA/Rollforward categories. For some rate categories and special services, the mail mix
17 below the CRA line changes in ways that significantly affect costs. If costs were not
18 adjusted, the test year costs would be inaccurate.

19 I have also incorporated final adjustments to reflect the impact of Negotiated
20 Service Agreements (NSAs) with Bank One, HSBC, and Discover, the impacts of which
21 were not reflected in the base year costs.

22 Priority Mail final adjustments are made for the impacts of the Flat Rate Box,
23 Premium Forwarding Service (PFS), and the introduction of Dimensional (Dim) Weight
24 pricing. With respect to the Priority Mail Flat Rate Box, the overall test year Priority Mail

1 volume did not change from Witness Thress's (USPS-T-7) projection, but volume shifted
2 from Priority Mail to the Priority Mail Flat Rate Box. The cost adjustment is made for mail
3 mix changes due to this volume shift. For Premium Forwarding Service, a final adjustment
4 corrects the difference between the PFS volume reported in USPS-LR-L-51, and the
5 volume projected by witnessThress (USPS-T-7). Dim Weight pricing is expected to cause
6 volume to leave Priority Mail, with some volume moving to Parcel Post. Window costs are
7 adjusted because of the longer transaction time to weigh and rate a parcel for a Dim
8 Weight piece.

9 Adjustments to the projected costs of Parcel Post are necessary for two reasons.
10 First, there is increased volume coming from Priority Mail due to dim weight pricing.
11 Second, witness Kiefer's (USPS-T-37) Parcel Return Service volume projection is greater
12 than witness Thress's (USPS-T-7) projection.

13 B. Methodology

14 (1) Mail Mix

15 The steps involved in calculating final adjustments are described below. To
16 simplify the explanation, the steps specify how the Parcel Post mail processing FY 2006
17 final adjustment is calculated.

18 Step 1. Calculate the average mail processing unit cost that the rollforward model
19 produces for Parcel Post mail processing costs in FY2006. This is estimated by dividing
20 total mail processing Parcel Post costs by total Parcel Post volume, using the base year
21 volume mix.

22 Step 2. Calculate the average mail processing unit cost for Parcel Post in FY2006
23 assuming the FY 2006 Parcel Post volume mix. This unit cost is estimated by multiplying
24 the FY 2006 mail processing unit cost for each rate category by its respective FY 2006
25 volume, and then dividing the sum by total Parcel Post FY 2006 volume.

1 Step 3. Subtract the unit cost in Step 1 from the unit cost in Step 2. This is the
2 unit cost differential between the average unit cost assuming the FY 2006 volume mix and
3 the average unit cost assuming the base year volume mix.

4 Step 4. Multiply the cost differential calculated in Step 3 by Parcel Post volume in
5 FY 2006. This is the mail processing Parcel Post adjustment for FY 2006. If this number
6 is positive, this is the amount to be added to the rollforward cost. If this number is
7 negative, this is the amount to be subtracted from the rollforward cost.

8 (2) Negotiated Service Agreements

9 For the Negotiated Service Agreement (NSA) adjustment, I have relied upon the
10 methodological approaches presented in the respective dockets: Bank One (Docket No.
11 MC2004-3), Discover (Docket No. MC2004-4), and HSBC (Docket No. MC2005-2) to
12 reflect the expected shifts in volume from Standard Mail to First-Class Mail and as a result
13 of returned pieces shifting from physical returns to ACS.

14 (3) Delivery Confirmation

15 Two adjustments are necessary for Delivery Confirmation service. First, Delivery
16 Confirmation costs are contained in Other Special Services costs, along with six other
17 products. The final adjustment for Delivery Confirmation service reflects the increased
18 domination of the Other Special Services category by the Delivery Confirmation product.
19 Without a final adjustment to costs mirroring the decline in average revenue for the Other
20 Special Services category, the ratio of revenue to cost for the aggregate category would be
21 skewed. Second, some Delivery Confirmation costs are picked up by the underlying
22 subclass with the rates for the underlying subclass recovering those costs. An adjustment
23 is made to take these costs from Delivery Confirmation service and put them in the
24 associated subclass.

25 (4) Insurance

1 As proposed by witness Mitchum (USPS-T-40), the new insurance product will not
2 require a signature for items insured for up to \$200, instead of the current \$50. All pieces
3 will have a barcode that must be scanned. The operations associated with providing
4 Insurance for items insured for over \$200 will not change. An adjustment is required to
5 account for the cost of scanning pieces from \$0.01 to \$50, and to remove the cost of
6 obtaining a signature for pieces insured for from \$50.01 to \$200.

7 (5) Priority Mail Adjustments

8 Four adjustments are made to Priority Mail cost projections. The first two
9 adjustments are necessary due to mail mix changes within the product, and volume
10 increases greater than projected by witness Thress (USPS-T-7). The next two
11 adjustments are due to a change to dim weight pricing.

12 (a) Priority Mail Flat Rate Box: An adjustment is needed to account for volume
13 shifting from an average cost Priority Mail piece to a piece with the cost characteristics of a
14 Priority Mail Flat Rate Box. The overall Priority Mail volume is not changing from the
15 projection of witness Thress (USPS-T-7). I used witness Scherer's model (USPS-T-33) to
16 develop the cost differential needed. I split this unit cost between Segment 14 and
17 Segment 3 by using the \$0.02 per pound non transportation weight-related handling cost.

18 (b) Premium Forwarding Service (PFS): The PFS volume in USPS-LR-L-51 is
19 projected to grow faster than witness Thress's projection (USPS-T-7) for Priority Mail as a
20 whole, and is expected to add volume to the total Priority Mail projection. An adjustment is
21 needed to account for the PFS-related costs not in the rollforward model. I distributed the
22 Priority Mail portion of the PFS cost by the ratio of the appropriate Priority Mail cost
23 segments to total Priority Mail costs. I used the PFS cost testimony from Docket No.
24 MC2005-1 to develop the window-related unit costs for each of the projected years.

1 (c) Dim weight pricing: Witness Scherer (USPS-T-33) is changing the pricing
2 methodology for Priority Mail from solely weight–distance pricing to dim weight pricing,
3 which better reflects current Priority Mail costs. He projects this change will cause volume
4 to leave Priority Mail, with some volume leaving the Postal Service completely, and other
5 volume shifting to Parcel Post. An adjustment reflects this volume loss. A second dim
6 weight adjustment reflects the increase in window service cost, because of the longer
7 transaction time to weigh and rate a Priority Mail parcel.

8 (d) Parcel Post: Two adjustments are necessary for Parcel Post. The first
9 accounts for a volume shift from Priority Mail to Parcel Post, as a result of dim weight
10 pricing. Witness Kiefer provided the cost to be added to Parcel Post. The second
11 adjustment is for Parcel Return Service (PRS). Witness Kiefer (USPS-T-37) projects this
12 product will grow faster than Witness Thress (USPS-T-7) has projected for Parcel Post as
13 a whole. The cost of this additional volume is not included in the rollforward. The PRS cost
14 (USPS-T-21) was used to develop the unit cost needed for the adjustment.

15 (e) Carrier-Route Letter and Card Rate Categories: The Postal Service is
16 proposing to eliminate the First-Class Mail Letters and Sealed Parcels automation carrier
17 route letters rate category, the Cards automation carrier-route rate category (USPS-T-32),
18 and the ECR Automation Basic Letters rate within Standard Mail ECR. The following
19 volume shifts are expected as a result: 1. First-Class Mail Carrier Route letters shift to 5-
20 Digit letters; 2. First-Class Mail Carrier Route Cards shift to 5-Digit Cards; and 3. Standard
21 Mail ECR Automation Basic letters shift to Standard Mail Regular Automation 5-Digit
22 Letters. The final adjustments model includes adjustments shifting costs out of the Carrier
23 Route letters categories into the appropriate 5-Digit categories to which this volume is
24 expected to shift. See USPS-LR-L59, Attachment 14A – 14D for the final adjustments cost
25 model.

C. Results

Table 13

Summary of Final Adjustments by Cost Segment (000s)

	2006	2007	BR2008	AR2007	AR2008
First-Class Presort	(18,332)	(19,294)	(14,549)	(13,183)	(721)
First-Class Presort Cards	(993)	(1,847)	(3,237)	(1,607)	(1,917)
Standard Regular	(85,815)	(153,476)	(212,426)	(117,956)	(99,565)
ECR	(2,548)	(852)	(2,469)	(62,200)	(164,842)
Parcel Post	30,693	38,357	34,838	52,256	83,552
Priority Mail	35,205	38,647	41,940	37,209	(12,187)
Other Special Services Delivery Con	(50,642)	(56,854)	(63,616)	(55,458)	(62,123)
Total For All Classes, Assigned to Cost Segment	(92,433)	(155,320)	(219,519)	(160,940)	(257,803)
Special Services					
Other Special Services Mail Mix Change	5,219	9,446	15,728	8,707	12,593
Special Services PFS	2,069	2,702	3,074	2,706	2,687
Special Service Insurance	0	0	0	(7,078)	(18,921)
Total For All Classes	(85,144)	(143,171)	(200,717)	(156,604)	(261,443)

XX. CONFIRM - SUMMARY OF COST COMPONENTS AND RESULTS

In this section of my testimony, I present an overview of Confirm[®] cost components and summarize them.

A. Cost Components

Confirm[®] has four main types of costs. These cost components – information technology, program support, field support, and marketing – are made up of sub-elements. The information technology component includes depreciation of software, hardware, and system development expenditures. The program support component includes dedicated program management and consulting contractor support. The field support component includes field technology chargebacks, helpdesk costs, and any attributable shared infrastructure costs in the field. The marketing component includes advertising expenditures and costs for various marketing services and promotional activities. I detail the nature of each cost component, respective cost categories, and the development of cost estimates for each of these in my testimony.

1 B. Cost Analysis Results

2 Table 14A presents Test Year costs for Confirm[®]. Given the nature of Confirm[®],
 3 the majority of Confirm[®] costs are product specific and do not vary with volume.¹

4 Table 14A: Confirm[®] Cost Analysis Summary (\$000)

	FY 2008	Variable	Incremental
Capital			
Information Technology			
Total IT Depreciation	\$30		\$30
Expense			
Program Support			
Consulting Support	\$225		
Total Program Support	\$225		\$225
Field Support			
Product Specific Field Support	\$420		\$420
Volume Variable Field Support	\$460	\$460	
Total Field Support	\$880	\$460	\$420
Marketing			
Promotional Activities	\$54	\$22	\$32
Total Marketing	\$54	\$22	\$32
Total Confirm Costs	\$1,189	\$482	\$707

5
 6 Table 14B depicts total costs broken into volume variable costs and product
 7 specific costs, and calculates the percentage of total costs that are volume variable.

8
 9 Table 14B: Volume Variable vs. Product Specific Cost Summary (\$000)

	TY 2008
Volume Variable Costs	\$482
Product Specific Costs	\$707
Total Confirm Incremental	\$1,189
Percent Volume Variable	40.5%

10
 11 In Table 14c, I divide total volume variable costs and total incremental costs by
 12 the projected number of subscriptions in the Test Year to determine a unit volume variable
 13 cost and a unit incremental cost (both per subscription).

¹ Costs listed in Table 14A are product specific unless labeled volume variable.

Table 14C: Unit Cost Analysis

	TY 2008
Total Subscribers	200
Volume Variable Costs	\$482
Unit Volume Variable Costs	\$2,410
Total Incremental Costs	\$1,189
Unit Incremental Costs	\$5,945

C. Costing Methodology

Accounting provided me with costs for the Confirm[®] finance number. I worked with the Product Manager and the IT Specialist for Confirm[®] to develop the projected costs for the test year FY 2008. See USPS-LR-L59, Attachment 17.

D. Results

I determined which costs are volume variable and which are specific fixed. I then verified my determination with Cost Attribution.

XXI. PROPOSED CHANGES RELATIVE TO PRC METHODOLOGY

The substantive changes between my cost models, found in USPS-LR-L-59, and the PRC version presented in USPS-LR-L-111 are: cost components derived from the Cost Segment and Component report (USPS-LR-L-94), roll forward costs (USPS-LR-L-96), piggyback factors (USPS-LR-L-98), and MODS costs (USPS-LR-L-100). In response to Commission Rule 53, Table 15 compares the test year cost estimates produced in USPS-LR-L-59 to the test year cost estimates produced by the PRC version in USPS-LR-L-111

TABLE 15: Test Year Unit Volume Variable Cost Comparison

<u>Service</u>	<u>LR-L-59</u>	<u>LR-L-111</u>
Caller Service		
Annual Storage cost	\$143.53	\$143.53
Annual cost per reserved number	\$21.15	\$21.29
Certificate of Mailing		
<u>Individual Pieces</u>		
Form 3817, Original (no duplicate)	\$0.74	\$0.74
Form 3817, Duplicate	\$0.58	\$0.59
Form 3877, Original – 13 pieces/cost per piece	\$0.26	\$0.26
<u>Bulk Quantities</u>		
Form 3606, Original - first 1000 pieces	\$3.73	\$3.75
Each Additional 1000 pieces	\$0.37	\$0.37
Form 3606, Duplicate	\$0.50	\$0.50
Correction of Mailing Lists		
Cost per name on list	\$0.32	\$0.32
Delivery Confirmation		
Priority Mail Electronic	\$0.0000	\$0.0000
Priority Mail Manual	\$0.5487	\$0.5577
First-Class Mail Electronic	\$0.1476	\$0.1491
First-Class Mail Manual	\$0.6961	\$0.7065
Standard Mail Electronic	\$0.1476	\$0.1491
Package Services Electronic	\$0.1476	\$0.1491
Package Services Manual	\$0.6961	\$0.7065
Parcel Select Electronic	\$0.0000	\$0.0000
Express Mail		
PO-to-PO	\$0.120	\$0.133
PO-to-Addressee	\$1.354	\$1.370
Custom Designed	\$0.195	\$0.208
Insurance		
Signature	\$2.52	\$2.57
No Signature	\$1.32	\$1.36
Combined	\$1.45	\$1.49
Bulk Insurance Cost Savings	\$0.78	\$0.79
Money Order Inquiry	\$4.92	\$4.92
Periodicals Applications		
Original Entry Cost	\$468.03	\$468.29
Additional Entry Cost	\$69.20	\$68.56
Reentry Cost	\$51.62	\$51.17
Registration for News Agents	\$32.84	\$32.67
<u>Service</u>	<u>LR-L-59</u>	<u>LR-L-111</u>

PO Boxes		
Cost of Ordering a New Key	\$4.20	\$4.26
Cost of Changing PO Box Lock	\$9.01	\$9.18
Restricted Delivery	\$2.49	\$2.51
Return Receipt		
Non-Merchandise	\$1.46	\$1.47
Merchandise	\$2.68	\$2.69
Electronic	\$0.43	\$0.44
Signature Confirmation		
Priority Mail Electronic	\$1.2022	\$1.2100
Priority Mail Manual	\$1.4467	\$1.4561
Package Services Electronic	\$1.2022	\$1.2100
Package Services Manual	\$1.4467	\$1.4561
First-Class Mail Electronic	\$1.4286	\$1.4379
First-Class Mail Manual	\$1.6731	\$1.6839
ZIP Coding of Mailing Lists		
Cost per 1000 Cards	\$65.84	\$66.33
Pickup		
On-Call	\$12.96	\$13.04
Scheduled	\$11.70	\$11.78
Stamped Card Cost same for USPS and PRC	COST	COST PER 1000
Single Cut	\$0.12	\$12.00
Single Sheet	\$0.12	\$12.00
Reply Card	\$0.24	\$24.00
Banded	\$0.27	\$27.00
Stamped Envelopes, See below		
Final Adjustments - See below		

1

2 The PRC Stamped Envelope costs shown in Table 16 can be compared to the Postal

3 Service Stamped Envelope costs.

4

5

6

1
2
3

Table 17: Summary of Final Adjustments by Cost Segment (000s)

	2006	2007	BR2008	AR2007	AR2008
First-Class Presort	(20,798)	(23,053)	(19,039)	(16,396)	(3,634)
First-Class Presort Cards	(1,134)	(2,106)	(3,597)	(2,261)	(2,751)
Standard Regular	(94,085)	(168,113)	(230,061)	(138,867)	(122,427)
ECR	(2,483)	(836)	(2,377)	(38,851)	(138,453)
Parcel Post	32,357	39,918	36,618	53,652	84,395
Priority Mail	37,690	40,859	45,278	39,210	(8,367)
Other Special Services Delivery Con	(53,650)	(59,387)	(66,853)	(57,929)	(62,522)
Total For All Classes, Assigned to Cost Segment	(102,103)	(172,719)	(240,030)	(161,442)	(253,759)
Special Services					
Other Special Services Mail Mix Change	4,227	7,356	12,139	6,773	9,988
Special Services PFS	2,069	2,702	3,074	2,706	2,687
Special Service Insurance	0	0	0	(7,125)	(19,046)
Total For All Classes	(95,807)	(162,660)	(224,816)	(159,088)	(260,129)

4
5

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

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

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