

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

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS ABDIRAHMAN TO INTERROGATORIES
OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T21-42A, B, and D, 43-54)

The United States Postal Service hereby files the responses of witness Abdirahman to the above-listed interrogatories of the Major Mailers Association, filed on May 17, 2005. Interrogatory MMA/USPS-T21-42C has been redirected to the United States Postal Service.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION

MMA/USPS-T21-42

In your response to Interrogatory MMA/USPS-T21-1A, you state that the "1SUPP_F1" cost pool has been classified as "worksharing related fixed" in USPS-LR-K-48, in order to be consistent with the Commission's treatment of such costs in Docket No. R 2000-1.

- A. Please explain why, in this instance, you deviated from USPS witness Miller's methodology in R2001-1 and decided instead to follow the Commission's R2000-1 treatment of this cost pool.
- B. Please confirm that, in R2001-1, the Postal Service indicated that costs for "1SUPP_F4" were reported under cost pools "MODS 48,LD48 OTH" and "MODS 48, LD48-ADM". See the Postal Service's answer to Interrogatory MMA/USPS-T22-7E, originally directed to USPS witness Miller. If you cannot confirm, please explain.
- C. Please explain why, in USPS-LR-K-110, you did not follow the Commission's classification of cost pools "MODS 48, LD48 OTH" and "MODS 48, LD48-ADM" as "worksharing related fixed"?
- D. Under the Postal Service's cost attribution methodology, where are the costs that are currently reported in cost pools "LD48 OTH" and "LD48-ADM"? Please explain how you classified such costs.

Response:

- A. After careful evaluation of "1SUPP_F1" cost pool, I refined and accepted the Commission's recommendation for worksharing related fixed classification.
- B. Confirmed. However, my understanding is that the "1SUPP_F4" is no longer listed and reported under cost pools "MODS 48,LD48 OTH" and "MODS 48, LD48-ADM". Please refer to USPS-LR-K-55.
- C. Redirected to the Postal Service.
- D. Please refer to USPS-T-11, page 5; also please see my response to POIR 4, Question 11 (b) regarding the cost pools LD48 OTH and LD48-ADM.

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MMA/USPS-T21-43

You refer to the RBCS data system in your response to Interrogatory MMA/USPS-T21-5.

- A. Please explain exactly what the RBCS data system is and what data it collects.
- B. Please provide a summary of the data collected for GFY 2004.

Response:

- A. It is the Remote Barcode Computer System (RBCS) data base from Corporate Information System. The following data is produced by this system for FY 2004: the RCR finalization rate, the total images processed through RBCS, and the RBCS leakage Rate.
- B. For GFY 2004, there were 12,314,082,937 RCR finalized images and 4,873,856,837 IPU images for a 72.5% RCR finalization rate. The leakage rate was 6.1%.

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MMA/USPS-T21-44

In your answer to Interrogatory MMA/USPS-T21-6B, you indicate that the Postal Service does not collect DPS percentages by rate category.

- A. If the Postal Service does not collect DPS %'s by rate category, how is such information broken down, if at all?
- B. Please provide whatever DPS volumes and DPS % the Postal Service did collect for FY 2004.

Response:

- A. The Postal Service does not collect DPS percentages by rate category. The DPS percentages in my cost study are the result of various inputs in my model.
- B. Please refer to the response to MMA/USPS-T29-4(C).

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MMA/USPS-T21-45

In response to Interrogatory MMA/USPS-T21-7D, you indicate that, because the IOCS does not provide cost estimates for BMM, you use the IOCS costs of single piece metered mail as a proxy for BMM.

- A. Is this a correct characterization of your testimony? If no, please explain.
- B. Do you agree that, notwithstanding your claim that you have estimated BMM costs, you have nevertheless used the processing costs for single piece metered letters, ***without modification***, as the benchmark from which workshare processing cost savings were measured? If you do not agree, please explain.

Response:

- A. Correct. My analysis relies upon shape-specific CRA mail processing unit costs.
- B. Agreed. The cost estimate for all metered letters is used as a proxy for BMM letters.

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MMA/USPS-T21-46

Please refer to your responses to Interrogatories MMA/USPS-T21-9B and 9C. You state that you have not studied the impact of worksharing on delivery costs and that the purpose of including delivery costs is to derive "Delivery Worksharing Related Unit Costs" and then to incorporate that result into "Total Worksharing Related Unit Cost Savings" (as you use those words in Library Reference LR-USPS-K-48, page 1) is to not to reflect the effect of worksharing, but to reflect "cost differences associated with the percentage of mail processed in Delivery Point Sequence by rate category".

- A. Please state what effect, if any, worksharing has on the ability for letters to be DPSed in the incoming secondary sort.
- B. Please explain why you categorize your analysis of delivery unit costs as "Delivery Worksharing Related Unit Costs" when deriving "Total Worksharing Related Unit Costs", yet you fail to agree that your derived delivery cost savings results from worksharing. Please explain why the delivery cost savings shown in your workshare cost savings do not result from worksharing?

Responses:

A. To the best of my knowledge, no study has been conducted that attempts to quantify DPS percentages at the rate category level. In the cost models, however, less finely presorted mail pieces are processed in more operations, which results in those mail pieces having a greater chance of being rejected and processed manually. The less finely presorted rate categories therefore have lower DPS percentage estimates and higher delivery unit cost estimates.

B. The delivery unit costs are included in the worksharing related savings calculations to reflect the fact that, to varying degrees, different mail categories capture different levels of Delivery Point Sequencing (DPS).

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MMA/USPS-T21-47

Please refer to your responses to Interrogatories MMA/USPS-T21-9D, 9E and 9F. You state that you know of no studies that examine the impact of worksharing on the delivery costs for a letter that is (1) DPSed or a letter that is (2) non-DPSed. If the Postal Service has not studied this issue, please explain how the Commission should quantify the cost savings that worksharing provides for delivery operations for the purpose of determining workshare discounts.

Response:

A. The delivery unit costs are included in the total worksharing related savings calculations to reflect the fact that, to varying degrees, different mail categories capture different levels of Delivery Point Sequencing (DPS). The DPS percentages are relied upon by witness Kelley in developing delivery unit cost estimates found USPS-LR-K-67.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION

MMA/USPS-T21-48

Please refer to your responses to Interrogatories MMA/USPS-T21-9H and 9I. You attempt to justify the use of the delivery costs for a workshared category, Nonautomation, machinable Mixed AADC letters (NAMMA), as a proxy for BMM letters. You state that they exhibit similar mail piece characteristics.

- A. Please confirm that, at the very least, these categories differ in that NAMMA letters are workshared including rigorous address hygiene requirements whereas BMM letters are not. If you cannot confirm, please explain.
- B. Please confirm that, as reflected by your mail flow models, there are no differences whatsoever between NAMMA letters and BMM letters. If you cannot confirm, please explain.
- C. Please confirm that as derived by your mail flow models, there are no unit processing cost differences whatsoever between NAMMA letters and BMM letters. If you cannot confirm, please explain.
- D. Please explain why, according to your final results, the processing workshare-related unit cost for BMM is 1.822 cents less than the comparable cost for NAMMA letters. In your explanation, please concentrate upon the logic reflected by your results rather than rehashing how application of different CRA Proportional Adjustment factors causes this disparate result.

Response:

- A. Confirmed that nonauto machinable must meet address hygiene requirements and BMM does not. Please refer to MMA/USPS-T21-9H and 9I.
- B. Confirmed. Please refer to MMA/USPS-T21-9H and 9I
- C. Confirmed. Please refer to MMA/USPS-T21-9H and 9I
- D. This cost difference is the result of the nonautomation presort letters costs being overstated. Please see the response to POIR No. 1a.

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MMA/USPS-T21-49

Please refer the derivation of BMM processing costs, based on your mail flow model, as provided on pages 3 and 4 of Library Reference LR-USPS-K-48. You show that BMM mail enters the mailstream at the "Out ISS" operation, and that there are 12 other possible entry points at which mail can be introduced.

- A. Please confirm that, in practice and theory, mail processing costs decline as the point at which a particular rate category enters is further down the Postal mail stream. If you cannot confirm, please explain.
- B. Please confirm that the "Out Prim Auto" is further downstream than the "Out ISS". If you cannot confirm, please explain.
- C. Please confirm that, if you altered your BMM model so that the 10,000 theoretical pieces are entered at the "Out Prim Auto" rather than the "Out ISS", this would imply that all BMM letters were prebarcoded and allow such pieces to completely bypass the RBCS. If you cannot confirm, please explain.
- D. Please confirm that if BMM were prebarcoded as suggested in Part C of this interrogatory, the unit costs that you derived for BMM should decline since the Postal Service would not have to apply barcodes to the letters. If you cannot confirm, please explain.
- E. Please confirm that if you altered your BMM model so that the theoretical 10,000 pieces are entered at the "Out Prim Auto" rather than the "Out ISS," the BMM model-derived unit cost increases from 4.461 cents to 4.712 cents. If you cannot confirm, please provide the correct answer and explain how you obtained that answer.

Response:

- A. In general, this can be confirmed. However, the comparison of an ISS operation, which is designed to apply barcodes to non-barcoded mail pieces, to an automation operation, which is designed to sort barcoded mail, may not necessarily be a meaningful one. These two operations rely on distinct technologies to accomplish different tasks. A better analysis would involve the comparison of the automation outgoing primary operation to the automation outgoing secondary operation, or some other automation operation.
- B. It is confirmed that mail flows from the ISS operation to the automation outgoing primary operation. However, this comparison may not be the most accurate use of the term "downstream." Please see the response to MMA/USPS-T21-49A.

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Response to MMA/USPS-T21-49 continued

C. Confirmed.

D. Not confirmed. These two operations involve distinct technologies, which would incur distinct costs. Please see the response to MMA/USPS-T21-49A.

E. Confirmed.

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MMA/USPS-T21-50

Please refer the derivation of BMM processing costs, based on your mail flow model, as provided on pages 3 and 4 of Library Reference LR-USPS-K-48.

- A. Please confirm that if you altered your BMM model so that the theoretical 10,000 pieces are entered at the "Out Prim Auto" rather than the "Out ISS," the DPS % is reduced, from 82.14% to 79.16%. If you cannot confirm, please provide the correct answer and explain how you obtained that answer.
- B. Please explain the logic behind why your model shows the DPS % is lower if the mailer rather than the Postal Service applies the barcode?
- C. Do you agree that this phenomenon is an unrealistic reflection of the real world processing? If you do not agree, please explain.

Response:

- A. Confirmed.
- B. Confirmed. It should be noted that the two figures, which are estimates, are close to one another. The DPS percentages are a reflection of the cost inputs in the models. I have made an attempt to include the best input data possible.
- C. Not necessarily. To the best of my knowledge, no one has ever conducted a study that has attempted to estimate DPS percentages by rate category level, or by mail type level (e.g., BMM letters).

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MMA/USPS-T21-51

Please refer the derivation of BMM processing costs, based on your mail flow model, as provided on pages 3 and 4 of Library Reference LR-USPS-K-48.

- A. Please confirm that the “Out SEC Auto” is further downstream than the “Out ISS”. If you cannot confirm, please explain.
- B. Please confirm that, if you altered your BMM model so that the 10,000 theoretical pieces are entered at the “Out Sec Auto” rather than the “Out ISS”, this would imply that all BMM letters were prebarcoded and presorted to allow such pieces to completely bypass the RBCS and the “Out Prim Auto”. If you cannot confirm, please explain.
- C. Please confirm that if BMM were prebarcoded and presorted as suggested in Part B of this interrogatory, the unit costs that you derived for BMM should decline since the Postal Service would not have to apply barcodes to the letters or sort them in the outgoing primary operation. If you cannot confirm, please explain
- D. Please confirm that, if you altered your BMM model so that the theoretical 10,000 pieces are entered at the “Out Sec Auto” rather than the “Out ISS”, the BMM model-derived unit cost increases from 4.461 cents to 4.532 cents. If you cannot confirm, please provide the correct cost and explain how you obtained that answer.
- E. Is it possible that your models significantly understate the cost of the RBCS operation? If that is not possible, please explain.
- F. If, according to your models, BMM letters cost less to process than “prebarcoded” Mixed AADC letters, how would this affect USPS witness Hatcher’s derived unit cost savings, which relies on aspects of your model to estimate the cost savings between hand-addressed letters and QBRM letters? Please explain your answer.

Response:

- A. In general, this can be confirmed. However, the comparison of an ISS operation, which is designed to apply barcodes to non-barcoded mail pieces, to an automation operation, which is designed to sort barcoded mail, may not necessarily be a meaningful one. These two operations rely on distinct technologies to accomplish different tasks. A better analysis would involve the comparison of the automation outgoing secondary operation to the automation incoming MMP operation, or some other automation operation.

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Response to MMA/USPS-T21-51 continued

- B. Confirmed.
- C. Not confirmed. These two operations involve distinct technologies, which would incur distinct costs. Please see the response to MMA/USPS-T21-51A.
- D. The BMM model-derived unit cost increases from 4.461 cents to 4.534 cents.
- E. It is possible that the RBCS costs are either overstated or understated. The extent to which the costs may be overstated or understated, however, is unknown.
- F. If the BMM letters model costs were to decrease, the CRA adjustment factor I provide to witness Hatcher would increase. This change would have the effect of incrementally increasing the QBRM cost avoidance estimate.

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MMA/USPS-T21-52

Please refer to the derivation of BMM processing costs, based on your mail flow model, as provided on pages 3 and 4 of Library Reference LR-USPS-K-48.

- A. Please confirm that, if you altered your BMM model so that the theoretical 10,000 pieces are entered at the "Out Sec Auto" rather than the "Out ISS", the DPS % decreases from 82.14% to 79.57%. If you cannot confirm, please provide the correct answer and explain how you obtained that answer.
- B. Please explain the logic behind why your model shows that the DPS % is lower if the Postal Service does not have to barcode the letters because the mailer both prebarcoded and presorted the letters so they can completely bypass the outgoing primary sort?
- C. Do you agree that this phenomenon is an unrealistic reflection of the real world processing? If you do not agree, please explain.

Response:

- A. Confirmed.
- B. It should be noted the two figures, which are estimates, are close to one another.

The DPS percentages are a reflection of the cost inputs in the models. I have made an attempt to include the best input data possible.
- C. Not necessarily. To the best of my knowledge, no one has ever conducted a study that has attempted to estimate DPS percentages by rate category level, or by mail type level (e.g., BMM letters). The truth is that no one knows what the actual DPS percentages are for these mail categories.

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MMA/USPS-T21-53

Please refer the derivation of automation mixed AADC processing costs, based on your mail flow model, as provided on pages 7 and 8 of Library Reference LR-USPS-K-48. You show that this mail enters the mailstream at the Out Auto Sec operation, meaning that it is prebarcoded and able to bypass the entire RBCS operation.

- A. Please confirm that if automation mixed AADC letters were not already prebarcoded or presorted by the mailer, such letters should cost more for the Postal Service to process simply because the Postal Service would have to spray on a barcode and provide an outgoing primary sortation. If you cannot confirm, please explain.
- B. Please confirm that if automation mixed AADC letters were not already prebarcoded or presorted by the mailer, they should exhibit a lower DPS%. If you cannot confirm, please explain.
- C. Please confirm that if you altered your Auto MAADC model so that the theoretical 10,000 pieces are entered at the "Out ISS" rather than the "Out Sec Auto," the Auto MAADC model-derived unit cost decreases from 4.532 cents to 4.461 cents. If you cannot confirm, please provide the correct answer and explain how you obtained that answer.
- D. Please confirm that if you altered your Auto MAADC model so that the theoretical 10,000 pieces are entered at the "Out ISS" rather than the "Out Sec Auto," the DPS % increases from 79.57% to 82.14%. If you cannot confirm, please provide the correct answer and explain how you obtained that answer.

Response:

- A. Confirmed.
- B. I am not able to confirm this interrogatory. As discussed in previous responses, DPS data are not available at the rate category / mail type level.
- C. Not confirmed. Based on the revised figures filed on 5/24/04, the Auto MAADC model-derived unit cost decreases from 4.543 cents to 4.454 cents.
- D. Confirmed.

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MMA/USPS-T21-54

Please refer to the summary of results on page 1 of your Library Reference USPS-LR-K-48. If you had used prebarcoded BMM as your benchmark, as discussed in Interrogatories MMA/USPS/T21-49 and 50, please confirm that your workshare cost savings would have increased by .252 cents for each of the automation rate categories. If you cannot confirm, please indicate by how much your results would have changed and provide a complete explanation of how you derived your revised workshare cost savings.

Response:

Not confirmed. The model-generated cost numbers for the benchmark letter are never compared with the model-generated cost numbers for the automated letters during the cost savings calculations. Please refer to MMA/USPS/T21-49 and 50.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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