

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 TAUFIQUE TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS ABDIRAHMAN
[ABA&NAPM/USPS-T21-56, 57 and 62(d&e)]

The United States Postal Service hereby files the responses of witness Altaf H. Taufique to the above-listed interrogatories of the American Bankers Association & National Association of Presort Mailers, filed on June 10, 2005.

The interrogatories have been redirected from witness Abdirahman to witness Taufique for response. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 22, 2005

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO ABA&NAPM INTERROGATORY
REDIRECTED FROM WITNESS ABDIRAHMAN**

ABA&NAPM/USPS-T21-56.

- a. Please confirm that in MC95-1, based on its cost models, the USPS proposed an initial “prebarcode” discount for the then-new basic automation rate of 5 cents.
- b. Please confirm that in its O&RD, the Commission set the basic automation discount at a much higher level of 5.9 cents, or 0.9 cents higher than your proposed discount.
- c. Please confirm that in MC95-1, based on its cost models, the USPS proposed a 3 Digit Presort discount of 7 cents.
- d. Please confirm that in its O&RD, the Commission set the 3 Digit Presort discount at a lower level of 6.6 cents, or 0.4 cents lower than your proposed discount.
- e. Please confirm that in MC95-1, based on its cost models, the USPS proposed an initial 5 Digit Presort discount of 8.5 cents.
- f. Please confirm that in its O&RD, the Commission set the 5 Digit Presort discount at a lower level of 8.2 cents, or 0.3 cents lower than your proposed discount.
- g. In light of your answers to a. – f. above please confirm that the net impact of the Commission’s changes to your proposed worksharing rates was to emphasize barcoding more and presorting less.

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. & d. Confirmed, except that the rates cited are for 3-digit *Automation* letters.
- e. & f. Confirmed, except that the rates cited are for 5-digit *Automation* letters.
- g. Not confirmed. The recommended decision in Docket MC95-1 disagrees with the conclusion drawn by your question. In paragraph 5047 of the Opinion and Recommended Decision it is stated: “By recommending rates for discounted categories that reflect savings produced by presortation, preparation to ensure compatibility with automated processing, and other worksharing activities, the

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RESPONSE to ABA&NAPM/USPS-T21-56 (continued):

Commission appropriately responds to §3622(b)(6) “degree of preparation” factor.”

From the perspective of the Postal Service it is difficult to draw the conclusion that the changes in the discount values, made by the Commission in Docket No. MC95-1 to Postal Service’s proposal, were to emphasize barcoding more and presorting less. First, as proposed by the Postal Service and as recommended by the Commission, the Automation discounts required both barcoding and presorting of mail. For nonbarcoded letter mail, the Postal Service proposed and the Commission recommended a single discount, smaller than the Automation Basic discount in both cases, along with preparation rules that required mailers to presort this mail to AADC, 3-Digit and 5-Digit trays if they had the volume to do so. Second, if discounts are evaluated on an incremental basis (not a preferred method of calculating discounts and passthroughs for First-Class Mail from Postal Service’s perspective) then the Commission recommendation offers a slightly larger discount (1.6 cents) for 3-Digit presorted mail to move to 5-Digit presort level compared to the Postal Service’s incremental discount of 1.5 cents for the 5-Digit mail.

While I agree that understanding how existing rates have evolved provides important context in rate-making, I find the relevance of this exercise dubious. The Postal Rate Commission and the Postal Service confronted a particular environment in 1995 at the time of MC95-1. That environment included the

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RESPONSE to ABA&NAPM/USPS-T21-56 (continued):

existing rates at that time, the operating environment and views how to best measure the associated cost savings. All of those factors have evolved or have been refined as one might expect over the past decade. As such, I would be surprised, if particular relationships or policies would remain precisely intact.

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ABA&NAPM/USPS-T21-57. In light of the Commission's overall changes to worksharing discounts recommended by the Postal Service in MC95-1, please confirm that the relative price signals the Commission sent to mailers compared to the price signals you proposed to send discouraged avoiding costs by presorting.

RESPONSE

Not confirmed. Please see my response to your interrogatory ABA&NAPM/USPS-T21-56 above.

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ABA&NAPM/USPS-T21-62. In your answer to ABA&NAPM/USPS-T21-27, you cite a Commission statement from R2000-1 that “BMM letters is the mail most likely to convert to worksharing.”

- a. Are you aware that the RCR read rates for processing single piece letters have increased substantially since R2000-1 due to better camera technology, and that compared to R2000-1, the “calculated total” TY unit mail processing costs for single piece letters has dropped in USPS witness Smith’s spread sheets from 12.3 cents in R2000-1 (see LR-I-81) to 11.421 cents in this case (see LR-K-53).
- b. Are you aware that presort bureaus and worksharing mailers also use the improved camera technology that has enabled more successful RCR read rates, and less manual keying in of OCR machine-unreadable addresses?
- c. Please confirm that the difference in unit mail processing costs has shrunk dramatically between BMM/single piece metered and other single piece letters in USPS witness Smith’s above referenced TY spreadsheets between R2000-1 and R2005-1, namely from 114.2% of the single piece unit cost (using the s. p. metered letter as reference) in R2000-1 to only 104.7%.
- d. With the cost of processing all single piece letter mail in First Class rapidly converging to the costs of processing metered mail, what practical relevance does any metered mail benchmark (whether bulk or non-bulk) have any longer as a benchmark?
- e. Assuming presort bureaus had equitable access relative to the Postal Service for all collection box mail, including blue boxes, residential mail boxes and other pick-up sources for First Class single piece letter mail, and assuming the costs of sorting BMM and other single piece mail were basically equivalent, please confirm that BMM would be no more likely to “convert to worksharing” than any other First Class single piece letter mail. If you do not confirm please fully explain your answer, including but not limited to a full economic explanation of why the apparent changes in, and convergence of, the relative costs of processing metered versus other single piece letter mail would not act as a strong economic signal for presort bureaus to process USPS collection box mail as willingly as BMM.

RESPONSE

- a-c- Response provided by witness Abdirahman.
- d. I would like to note that in this docket the proposed rates are not based on cost savings estimated by witness Abdirahman (USPS-T-21) so the issue of benchmark to calculate the cost savings is not relevant.

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RESPONSE to ABA&NAPM/USPS-T21-62 (continued):

Also, the assumption of convergence of single piece letters and metered mail single piece letters is based on two observations, TY2001 (see LR-I-81) and TY2006 (See LR-K-53). One additional observation from TY2003 (see LR-J-53) used in Docket No. 2001-1 may not necessarily support the hypothesis of convergence. It is possible that cost estimates for these two mail streams may continue to converge. If that appears to be the case, the Postal Service and the Commission may have to evaluate the benchmark issue in the context of a traditional case, in light of the totality of other circumstances of that particular filing.

During past three omnibus rate cases, Bulk Metered Mail (BMM) was the Commission approved benchmark for First-Class Mail categories. Please see PRC Op., R2000-1, paragraph 5089, which states that the Commission “also views a benchmark as a “two-way street.” It represents not only that mail most likely to convert to worksharing, but also, to what category current worksharing mail would be most likely to revert if the discounts no longer outweigh the cost of performing the worksharing activities.”

- e. The assumption of a private presort bureau being able to collect the mail directly from postal collection boxes and residential mail boxes does not reflect the current framework guiding the workings of the Postal Service. A significant change in this framework would be needed for these assumptions

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RESPONSE to ABA&NAPM/USPS-T21-62 (continued):

to be realized. I do not know how mail processing and worksharing and the costs of providing various types of mail would change based on the assumptions listed in your question.