

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS ALTAF H. TAUFIQUE  
TO VALPAK INTERROGATORY (VP/USPS-T32-1)

The United States Postal Service hereby files the response of witness Altaf H. Taufique to the following interrogatory of Valpak Direct Marketing Systems and Valpak Dealers' Association : VP/USPS-T32-1, filed on May 25, 2006.

The interrogatory is stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

\_\_\_\_\_  
Michael T. Tidwell  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2998; Fax -5402  
June 15, 2006

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**VP/USPS-T32-1.**

Please refer to page 21 of your testimony, USPS-T-32, beginning on line 15, where you state: The rate design for Single-Piece First-Class Mail starts with the Test Year Before Rates (TYBR) rollforward costs for Single-Piece and Presort mail within the First-Class Mail Letters and Sealed Parcels subclass. A per-unit contribution is simultaneously estimated for both Single-Piece and Presort mail to meet the Letters subclass revenue requirement. The target per-piece revenue estimate is then multiplied by the TYBR volume to derive the target revenue for both Single-Piece and Presort.

- a. Please identify the per-unit contribution in cents per piece that you “simultaneously estimated for both Single-Piece and Presort mail to meet the Letters subclass revenue requirement.”
- b. Please identify “the Letters subclass revenue requirement” that your “per-unit contribution” was estimated to meet. As among the categories of Single-Piece, presorted, automation letters, automation flats, and business parcels (shown on page 4 of Attachment A of the Request, Schedule 221), or some other categories that you choose, please state which categories are covered by your “revenue requirement.”
- c. Please explain, step by step, how you arrived at the “Letters subclass revenue requirement” that your “per-unit contribution” was estimated to meet. If this revenue requirement was given to you by another witness, please so state.
- d. Given the revenue requirement stated in part b and explained in part c, please explain, step by step, how you “estimated” the “per-unit contribution ... for both Single-Piece and Presort mail....”
- e. After you completed the rate development process, what was the final resulting “per-unit contribution ... for both Single-Piece and Presort mail”?
- f. If there are differences, please identify and explain the factors associated with the per-unit contributions of Single-Piece and Presort being different from each other and/or being different from the one you state in part a.
- g. Is the “target per-piece revenue estimate” different from the sum of the unit cost and the “per-unit contribution” that you estimate? If so, please explain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1.**

- a. Please see my library reference, LR-L-129, WP-FCM12, spreadsheet – ‘Revenue – SP&Presort’ cells B26 and C26. The starting per-unit contributions are \$0.230 (single-piece) and \$0.231 (presort).
- b. Please see the spreadsheet mentioned in my response to subpart a, cell C30. The number is \$35,883,298,721. All of Letter and Sealed Parcels subclass is covered by this revenue requirement. This includes revenue from all single-piece rate elements which in the after rates world are:
  1. First-Ounce Letters, Flats and Parcels.
  2. Single-Piece Additional Ounce Rate
  3. QBRM

For the Presort category the following are included:

1. Nonautomation Presort first-ounce letters and flats
2. Nonautomation presort additional ounce rate
3. Automation Letters including Mixed AADC, AADC, 3-Digit and 5-Digit.
4. Automation Letters additional ounce rate.
5. Automation Flats including Mixed ADC, ADC, 3-Digit and 5-Digit.
6. Automation Flats additional ounce rate.
7. Presort of Business Parcels including ADC, 3-Digit and 5-Digit.
8. Presort or Business Parcels additional ounce rate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1 (continued):**

9. Non-machinable, non-barcoded surcharge for presort or business parcels.
- c. The revenue requirement is established by the rate level witness. In this docket, Postal Service's rate level witness is Dr. O'Hara, USPS-T-31.
- d. In my case it was an iterative process through which I evaluated various combinations of per-unit contribution and the resulting total letters subclass revenue requirement.
- e. Please see the spreadsheet mentioned in my response to subpart a, cells B43 and C43. The resulting per-unit contributions are slightly higher. \$0.235 for single-piece and \$0.234 for presort.
- f. I do not believe that the resulting numbers reported in subpart e are much different than the starting numbers illustrated in subpart a. I do not believe that the per-unit contribution from single-piece and presort categories should necessarily be the same. As I have stated in my testimony:

The objective of the approach introduced here is to gradually achieve a rate design paradigm in which both workshare and single-piece mail contribute equally to institutional costs on a unit contribution basis. The goal of similar unit contributions from these two mail categories is not an absolute one; other rate design and rate impact considerations may require the Postal Service and the Commission to deviate from this goal. USPS-T-32, pages 15 and 16.

These differences arise because of the rate design process which not only considers per-unit contribution but also rate relationships, rate changes,

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO VALPAK INTERROGATORY**

**RESPONSE to VP/USPS-T32-1(continued):**

classification changes and the effect on customers, competitors and the other factors enumerated in 3622 and 3623.

- g. The target per-piece revenue does not have to be the same as the resulting per-unit contribution. As I have stated in my response to subpart f, the rate design process takes into account number of other factors that may not necessarily be addressed if a rigid contribution goal were established. Therefore, the resulting per-unit contribution could be substantially different from the starting point.