

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE, REDIRECTED FROM WITNESS
DREW MITCHUM (OCA/USPS-T40-1-7)
(June 16, 2006)

The United States Postal Service hereby provides its institutional responses to the following interrogatories of the Office of the Consumer Advocate, which were filed on June 2, 2006, and have been redirected from witness Drew Mitchum (USPS-T-40):

OCA/USPS-T40-1-7

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Brian M. Reimer

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3037, Fax -5402
Brian.M.Reimer@usps.gov

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-1. The following group of interrogatories relates to the proposed rate increase in this docket averaging 50 percent for Registered Mail based upon Postal Service costs. In the previous rate case, Docket No. R2005-1, a large cost increase estimated by the Postal Service was reduced significantly when the Commission applied the PRC's costing methodology to Registered Mail. Thus, the rate increase recommended by the Commission for Registered Mail of 5.6 percent (Opinion at page 177), based upon the PRC costing methodology, was consistent with the increases for other classes of mail. The following interrogatories explore the reasons why again applying the PRC costing methodology to estimated Registered Mail costs to reduce the rate increase of Registered Mail may not be feasible in this docket because registry costs using the PRC methodology appear to be higher than the registry costs using the Postal Service methodology. The interrogatories also seek to determine why unusually large cost increases appear in the library reference for Registered Mail using the PRC costing methodology.

Please confirm the following regarding Registered Mail in Docket No. R2005-1. If you do not confirm, please explain.

- a. In Docket No. R2005-1, the Postal Service using its own methodology estimated TY2006BR Registered Mail attributable costs of \$66,657,000. (OCA/USPS-T10-7, Tr. 8D/5014)
- b. In Docket No. R2005-1, the Postal Service using the PRC methodology estimated TY2006BR Registered Mail attributable costs of \$42,070,000 (OCA/USPS-T10-7, Tr. 8D/5014)
- c. In Docket No. R2005-1, the attributable costs estimated by the Postal Service for Registered Mail using the PRC methodology were lower than the attributable costs using the Postal Service methodology in the amount of \$24,587,000 (\$66,657,000 less \$42,070,000).
- d. In the Opinion in Docket No. R2005-1, the Commission estimated test year 2006 attributable costs of \$41,382,000 and revenue of \$43,684,684 for a contribution to institutional cost of \$2,302,000 and a cost coverage of 105.6 percent as shown on Appendix G, Schedule 1 of the Opinion.

RESPONSE:

- a. Confirmed that in Docket No. R2005-1, the Postal Service, using its own methodology, estimated TY2006BR Registered Mail volume variable costs of

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

RESPONSE TO OCA/USPS-T40-1 (continued)

\$66,657,000 (after revision of an earlier number).

b. Confirmed (after revision of an earlier number).

c. Confirmed that in Docket No. R2005-1, the attributable costs estimated by the Postal Service for Registered Mail using the PRC methodology were lower than the volume variable costs using the Postal Service methodology in the amount of \$24,587,000 (\$66,657,000 less \$42,070,000).

d. Confirmed except for the fact that the revenue shown in Appendix G is \$43,688(000).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-2. Please confirm the following regarding Registered Mail in this docket. If you do not confirm, please explain.

- a. The estimated attributable cost using the Postal Service methodology for base year 2006 is \$75,108,000 in witness Waterbury's Exhibit USPS-T10E, page D-1.
- b. The estimated attributable cost using the PRC methodology for base year 2006 is \$88,188,000 in LR-L-96, Part 2, vol. A, "D" Report, page D-1.
- c. The attributable costs estimated for the base year 2006 by the Postal Service for Registered Mail using the PRC methodology are higher than the attributable costs using the Postal Service methodology by the amount of \$13,080,000 (\$88,188,000 less \$75,108,000).
- d. The estimated before rates attributable cost for test year 2008 using the Postal Service costing methodology is \$64,262,000 as determined by witness Waterbury (T-10), Exhibit USPS-T10K, page D-1.
- e. The estimated before rates attributable cost for test year 2008 using the PRC costing methodology is \$75,419,000 as determined in LR-L-96, Part 2, vol. D, "D" Report, at D-1.

RESPONSE:

- a. Confirmed that the estimated volume variable costs using the Postal Service methodology for fiscal year 2006 is \$75,108,000 in witness Waterbury's Exhibit USPS-10E, page D-1 (the Base Year in this case is 2005).
- b. Confirmed that the estimated attributable costs using the PRC methodology for fiscal year 2006 is \$88,188,000 in USPS-LR-L-96, Volume A, "D" Report, page D-1.
- c. Confirmed that the attributable costs estimated for fiscal year 2006 by the Postal Service for Registered Mail using the PRC methodology are higher than the volume variable costs using the Postal Service methodology by the amount of \$13,080,000 (\$88,188,000 less \$75,108,000).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

RESPONSE TO OCA/USPS-T40-2 (continued)

d. Confirmed that the estimated before rates volume variable costs for test year 2008 using the Postal Service costing methodology, including contingency, is \$64,262,000 as determined by witness Waterbury (USPS-T-10), Exhibit USPS-10K, page D-1.

e. Confirmed that the estimated before rates attributable costs for test year 2008 using the PRC costing methodology, including contingency, is \$75,419,000 as determined in USPS-LR-L-96, Volume D, "D" Report, page D-1.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-3. Please explain why in this docket the base year 2006 costs using the PRC methodology are higher than the costs estimated using the Postal Service methodology whereas in Docket No. R 2005-1, the test year 2006 before rates costs using the PRC methodology were much lower than the costs estimated using the Postal Service methodology?

RESPONSE:

The roll forward model that generates interim year (and test year) costs uses base year costs as an initial input. Therefore, the direction of the differences between fiscal year 2006 costs using the PRC methodology and fiscal year 2006 costs using the Postal Service methodology in this docket, as compared to the direction of the differences between test year 2006 before rates costs using the PRC methodology and test year 2006 before rates costs using the Postal Service methodology in Docket No. R2005-1, is largely a function of the direction of the differences in cost methodologies for the Postal Service version versus the PRC version in the base year.

In this docket, the base year costs using the PRC methodology are higher than the base year costs using the Postal Service methodology, whereas in Docket No. R2005-1, the base year costs using the PRC methodology were lower than the base year costs using the Postal Service methodology. This apparent reversal is not due to a PRC method change, but rather a change in the data collection in the redesigned In-Office Cost System that affected the mail processing cost pools for Registered Mail.

Prior to FY 05, in mail processing, the MODS Registered Mail cost pools included Registry Services costs for both USPS Penalty Registered Mail and Commercial Registered Mail. To get the portion of the Commercial Registered Mail costs in the PRC

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

RESPONSE TO OCA/USPS-T40-3 (continued)

version, the Registered Mail processing costs were apportioned between USPS Penalty Registered Mail and Commercial Registered Mail based on the RPW volume for Registry (see Docket No. R2005-1, USPS-LR-K-93, Cs03.xls, tab PRC 3.0.7 and tab 3.1.1). In the USPS version, the Commercial Registered Mail processing costs were obtained by excluding the IOCS tallies for USPS Penalty Registered Mail from the combined USPS and Commercial Registered Mail costs. Since the percentage of Commercial Registered Mail volume in RPW is much lower compared to the portion of Commercial Registered Mail tallies in IOCS, the apportionment resulted in considerably lower PRC Commercial Registered Mail costs relative to the USPS Commercial Registered Mail costs –\$12,674 versus \$39,207 in Docket No. R2005-1.

In FY 05, IOCS information on special services was not collected for USPS Penalty mail. Therefore, the Registered Mail costs did not include USPS Penalty Registered Mail, and all Registered Mail costs were apportioned to Commercial Registered Mail in the PRC version (see USPS-LR-L-93, Spreadsheets, CS03, tab PRC 3.0.7 and tab 3.1.1). This change in the IOCS data collection, which eliminated the need for the RPW volume split in the PRC version, resulted in much higher PRC costs in this docket –\$54,377 versus \$12,674 in Docket No. R2005-1. At the same time, the same reliance on the IOCS tally processing costs in both USPS and PRC versions considerably reduced the differences between the PRC and the USPS Domestic Registered Mail costs in this docket—\$54,377 versus \$44,451.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

RESPONSE TO OCA/USPS-T40-3 (continued)

Although both USPS and PRC methods are more comparable with the elimination of the RPW volume split in the PRC version, there may be one primary reason the PRC costs are higher than the USPS costs. The overhead costs such as 'on break' and 'clocking in and out' in the MODS 1&2 cost pools are all distributed to subclasses and none to the pool fixed costs in the PRC version. While for most cost pools the portion of the fixed costs is rather small in the PRC version, this is not the case for the MODS Registry cost pool. In the USPS version, only the volume-variable portion of the overhead costs is distributed to subclasses.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-4. Please explain why in this docket the test year 2008 before rates costs using the PRC methodology are higher than the costs estimated using the Postal Service methodology whereas in Docket No. R 2005-1 the test year 2006 before rates costs using the PRC methodology were much lower than the costs estimated using the Postal Service methodology?

RESPONSE:

The roll forward model that generates test year costs uses base year costs as an initial input. Therefore, the direction of the differences between test year 2008 before rates costs using the PRC methodology and test year 2008 before rates costs using the Postal Service methodology is largely a function of the direction of the differences in cost methodologies for the Postal Service version versus the PRC version in the base year. In this docket, the base year costs using the PRC methodology are higher than the base year costs using the Postal Service methodology, whereas in Docket No. R2005-1, the base year costs using the PRC methodology were lower than the base year costs using the Postal Service methodology. Please refer to the response to OCA/USPS-T40-3 for differences in base year costs.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-5. Please explain the basis for the large increase in the estimated before rates test year costs for registry using the PRC methodology between the test years 2006 to 2008 of from \$42,070,000 to \$75,419,000.

RESPONSE:

The increase in the estimated before rates test year costs for registry using the PRC methodology between this docket and Docket No. R2005-1, from \$42,070,000 in R2005-1 for TY2006BR to \$75,419,000 in R2006-1 for TY2008BR, is due primarily to the increase in base year costs between this docket and Docket No. R2005-1. Please refer to the response to OCA/USPS-T40-3 for differences in base year costs.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-6. Please explain the basis for the decrease in before rates test year costs for registry using the Postal Service methodology between test years 2006 to 2008 from \$66,657,000 to \$64,262,000, or a reduction of \$2,395,000.

RESPONSE:

The decrease in before rates test year costs for registry using the Postal Service methodology between this docket and Docket No. R2005-1, from \$66,657,000 in R2005-1 for TY2006BR to \$64,262,000 in R2006-1 for TY2008BR, is due primarily to forecasted reductions in registry volume.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE,
REDIRECTED FROM WITNESS MITCHUM (USPS-T-40)

OCA/USPS-T40-7. Please explain the apparent inconsistency between the large increase in the estimated before rates test year costs for registry using the PRC methodology between test years 2006 to 2008 of from \$42,070,000 to \$75,419,000 as compared to the decrease in before rates test year costs for registry using the Postal Service methodology for the same period from \$66,657,000 to \$64,262,000, or a reduction of \$2,395,000.

RESPONSE:

Please refer to the response to OCA/USPS-T40-3 for differences in PRC base year costs between this docket and Docket No. R2005-1.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Brian M. Reimer

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3037, FAX: -5402
June 16, 2006
Brian.M.Reimer@usps.gov