

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.,
(VP/USPS-T31-7 THROUGH 9)

The United States Postal Service hereby files the responses of witness O'Hara to above-listed interrogatories, filed on August 10, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 29, 2006

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

VP/USPS-T31-7.

Please refer to your response to OCA/USPS-T31-1, where you state that your decisions in establishing cost coverages were informed by your knowledge about (i) "applicable service standards for various products," and (ii) "the available data regarding the Postal Service's experiences in meeting these standards."

- a. Please explain how your decision in establishing the cost coverage for Standard Regular and Standard ECR was informed by the service standards for Standard Mail.
- b. Please identify all available data (or other information) that you relied on regarding the Postal Service's experiences in meeting the Standard Mail service standards.

RESPONSE:

- a. The proposed coverages for Standard Regular and Standard ECR were developed simultaneously with coverages for the other subclasses. A major consideration was to facilitate acceptance of the Postal Service's proposed rate and classification changes (summarized on pages 3-6 of my testimony) within the framework of the § 3622(b) criteria. Accordingly, particular attention was given to criterion 4 (effect of rate increases)

Because the service standard for Standard Mail is unchanged, and there have been no changes in service performance relative to that standard as far as I am aware, the proposed coverages do not incorporate any service-related adjustments.

- b. There are no nationally representative data on Standard Mail performance relative to service standards. For other information, please see my testimony (revised August 25, 2006) at page 27, lines 8-16 (for Standard Regular) and page 29, lines 7-12.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

VP/USPS-T31-8.

Please refer to your response to OCA/USPS-T31-3. You state:

[A]verage delivery time is not the only aspect of service performance that matters to customers. Variation around the average can also be important.

- a. What is the variation of actual average delivery time around the service standard for delivery of Standard Regular Mail, e.g., for Standard Mail with a stated service standard of seven days, what is the actual average number of days for delivery?
- b. Please provide all statistical measures or anecdotal information that the Postal Service has regarding the variation of the actual average time versus the service standard for delivery of Standard Regular Mail.

RESPONSE:

- a. No measure of this variation is available.
- b. No statistical measures are available. My understanding, based on many discussion with mailers, printers, and people in Operations within the Postal Service is that an acceptably small level of variation is usually, but not always, achieved. For Standard Regular, dropship to the Destination Sectional Center Facility (DSCF) is widely believed to be effective in reducing variation in when mail is delivered. Standard Regular mail that is entered anywhere upstream from the Destination Bulk Mail Center (DBMC) is believed to have wider variation in day of delivery, with a small portion (referred to as "the tail of the mail") sometimes being delivered several days after the requested delivery window.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

VP/USPS-T31-9.

Please refer to your response to ABA-NAPM/USPS T31-1. The primary purpose of this question is to help clarify the meaning of certain figures in your response.

- a. For each year for which data are shown, please identify clearly:
 - (i) whether the data are at Postal Service or Commission costing;
 - (ii) whether the data are actual outcomes or projections;
 - (iii) if at Postal Service costing, whether the data are at proposed costing in a pending case, the costing proposed in a recent rate case, or some other specified costing; and
 - (iv) if at Commission costing, whether the data are at costing actually developed and used by the Commission during some specified rate case, or at a Postal Service estimate of Commission costing from some previous rate case.
- b. For any data that constitute projections, please explain the extent to which you agree that differences between any year and a projected year are at least in part the result of (or a reflection of) assumptions made in a model and thus may have little or nothing to do with what actually happened to the Postal Service in those years.
- c. For each year, or applicable portion of a year, for which any data shown include revenue and cost for Nonprofit mail, please state whether the Nonprofit rates were set pursuant to Public Law 106-384, or Public Law 103-123, or some other law.
- d. In section 2 of your response, you state: "Your data for Standard Mail in 1999 (and **presumably** for 1994 – 1998 as well) are for the commercial portions of Regular and ECR." (Emphasis added.)
 - (i) Please identify any questions you have about what the data for 1994 through 1998 are for.
 - (ii) The original question asked you to "confirm" the figures provided in the question. Please clarify the extent to which you have checked and are confirming the various figures.
- e. In section 2 of your response, you "recommend aggregating data from the earlier years to the level of detail reported beginning in FY 2000" in order "[t]o get an apples-to-apples comparison of coverages before and after FY 2000."
 - (i) Please state what assumptions have to be met to make the comparisons apples-to-apples.
 - (ii) Please explain whether the appropriateness of the comparisons at issue are affected by any assumption about who pays for the reduced rates for the Nonprofit mailers (candidates for paying to include all mailers combined or the host commercial category).
 - (iii) Please explain whether the appropriateness of the comparisons at issue is affected by any assumption about whether the rates set for the Nonprofit categories under Public Law 106-384 are the same as the rates that would have been set under Public Law 103-123.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

VP/USPS-T31-9 (continued)

- f. Please explain the extent to which you believe significance attaches to the behavior over time of the ratios in each "Compared to Average" column in your response. If you believe there is significance, please state what that significance is. If you do not believe there is significance, please explain all reasons why not. (Note that this question does not relate to whether there is significance in the behavior over time of the markup indexes used by the Commission.)
- g. Please explain the extent to which you agree that any data relating to outcomes instead of to Postal Service proposals, or to recommendations of the Commission, do not relate specifically to what the Postal Service intended in its proposal or to what the Commission intended in its recommendation.
- h. (i) Which figures in your response are influenced in any way by decisions made by the Postal Service Governors or the Commission in Docket No. R2005-1?
(ii) Please explain the extent to which you agree that, because of the across-the-board nature of Docket No. R2005-1, none of figures itemized above in part (i) of this question have any content relating to coverage preferences of the Postal Service or to specific coverage recommendations of the Commission.

RESPONSE:

My responses to this question will refer to my suggested substitute table on page 2 of the attachment to this response, a table for which I can make definite statements. With two exceptions mentioned in my response to part (a), the coverages in my table are very close to those in the original table supplied as part of ABA-NAPM/USPS T31-1.

Also, I would note that the original table had a list of sources that I failed to reproduce in my response:

Source: R97-1, ABA/EEI/NAPM-T-1, Page 37; USPS, Cost and Revenue Analysis, Fiscal Year 1994 through 2005; for 2007, revenues are from R2006-1, USPS-LR-L-131, Exhibit USPS-31C and volume variable costs are from R2006-1, USPS-T-10, Exhibit USPS-10I. TY2008 data are from R2006-1, LR-L-131, Exhibit USPS-31B.
* Values for 2006 are from R2005-1, TY2006, USPS-T-27, Exhibit USPS-27B.

- a. (i) All data are from Postal Service documents and reflect the Postal Service costing methodology in use at the time. For the first three years of the table, differences between the Postal Service and PRC methods were quite small.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

RESPONSE to VP/USPS-T31-9 (continued):

- (ii) For the years 1994-2005, the data reflect actual outcomes. For 2006-2008, the data are R2006-1 projections, which are contained in my L-LR-174.

- (iii) In the original interrogatory, data for 2006 came from R-2005-1 and for 2007-2008 from R-2006-1 (as originally filed). The data for 2006-2008 in my suggested alternative (p. 2 of the attachment) are all from R-2006-1 and incorporate post-filing errata.

The data for 2006 in my alternative are based on different underlying assumptions from those in the ABA-NAPM table. The ABA-NAPM data are projected R2005-1 TYAR results, with rate implementation assumed to occur on October 1, 2005, whereas my alternative data are R2006-1 projections based on the actual implementation date of January 8, 2006 (and more recent economic data as well).

The other notable difference between the ABA-NAPM table and my alternative occurs in the columns for Standard Regular and Standard ECR for the years 1994 through 1999. The coverages in my table were constructed by combining revenues and costs for (commercial) Regular and Nonprofit for the "Regular" column and ECR and NECR for the "ECR" column. This aligns the data for 1994-1999 with those from 2000 forward, when cost data were reported only for these commercial/nonprofit combinations.

- (iv) Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

RESPONSE to VP/USPS-T31-9 (continued):

- b. I would agree that differences in cost coverage between a pair of years, one a past year with actual results and the other a future year with projected results, will reflect the assumptions used in the future-year projections. Once the future year has ended, actual results may be compared with the projection. The actual results for a future year certainly may differ from the projection, but I know of no way to predict the size and direction of the difference.

- c. In my alternative table, which does contain Nonprofit data for all years, rates for the years 1994 through 2000 were determined under the applicable phasing legislation (Public Law 103-123), as were the rates in effect prior to January 7, 2001 in FY 2001. The R 2000-1 rates implemented on that date were determined by Public Law 106-384, which applies to all subsequent years in the table.

- d.
 - (i) As noted in my response to part (a), subpart (iii), the coverages in my alternative table are based on revenues and costs for Regular and Nonprofit combined and ECR and NECR combined. Since my coverages for 1994-1999 are significantly lower than the ABA-NAPM coverages, I believe that the "presumably" in my original response is correct, but I have not tried to replicate the ABA-NAPM coverages
 - (ii) All of the data in my alternative table have been drawn directly from USPS documents in electronic or hard-copy form. Aside from the differences noted in parts (a)-(iii) and (d)-(i), almost all the differences between the ABA-NAPM table and mine are small enough to result from differences in the number of digits used in the underlying revenue and cost data. There

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

RESPONSE to VP/USPS-T31-9 (continued):

are a few larger differences for the years 1994-1996 in the First-Class data that I suspect result from keying errors, but I have not confirmed this.

- e. (i) By "apples-to-apples" I simply meant that all the data in a given column should cover the same mail. Since separate cost data for commercial and nonprofit Standard are not available from 2000 forward, I suggested combining commercial and nonprofit data for the earlier years. Your mention of the nonprofit phasing legislation reminded me that relationship between commercial and nonprofit coverages changed over the phasing period, so my suggestion is not as completely "apples-to-apples" as I had thought. However, I still think it is more useful than excluding nonprofits for 1994-1999, and including them from 2000 on.
- (ii) I believe it is not possible in practice to determine who pays for reduced nonprofit rates. In theory, it might be able to make this determination, but I believe any theoretical approach would have to make numerous assumptions, of unknown validity, to arrive at a result other than "it depends on . . ."
- (iii) A part of any assessment of comparisons should be made with a knowledge of the law(s) in effect for the time period considered. I cannot come to any broad conclusion with respect to the relevance of knowledge (or assumptions) about whether the rates that would arise under different laws would or would not be the same.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

RESPONSE to VP/USPS-T31-9 (continued):

With respect to the years covered by the table, my understanding is that

(1) the early phasing years were designed to produce rates that were lower relative to commercial rates than was thought appropriate on a long-term basis, and

(2) the new law was negotiated with the intention of preserving, on average, the relative position of nonprofit and commercial rates that had been achieved at the end of phasing, but without the rate-case to rate-case jumps in the relationship that seemed likely to be a continuing problem unless modifications were made to the mechanism specified in the existing law.

- f. In my view, the behavior over time of the ratios in each "Compared to Average" column does not "speak for itself," and no general conclusion with respect to its significance is possible.
- g. Of course, neither the Postal Service nor the Commission can predict the future precisely enough to propose or recommend rates that actually result in coverages that match those implied by their underlying analysis. However, absent major unanticipated events (such as 9-11-2001), I believe that actual coverages tend to move in the same direction as the proposed coverages, and that actual outcomes can often be used, with your caveat, for analysis.
- h. (i) The data for 2006-2008 are influenced by results of R 2005-1.
- (ii) I believe the across-the-board nature of Docket No. R2005-1 means that the resulting coverages (both proposed and recommended) have a less precise relationship to the coverage preferences of the Postal Service or

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF VALPAK**

RESPONSE to VP/USPS-T31-9 (continued):

the Commission than those in an ordinary omnibus rate case, but I cannot agree that they lack "any content." I believe that both the Postal Service and the Commission would not have proposed or recommended the R2005-1 rates unless they judged the resulting coverages to be within the acceptable range, at least for the period they were likely to be in effect.

Table accompanying ABA-NAPM-T31-1

**Recent Cost Coverages For First Class and Standard A Mail
Compared to System-Wide Average for All Mail & Special Services
Cost Coverage**

Year	System-Wide Average	First-Class Mail			Standard Mail		
		Total	Single-Piece	Presort	Total	Regular	ECR
1994	155%	167%	150%	216%	148%	131%	217%
1995	163%	173%	151%	247%	157%	140%	227%
1996	164%	175%	150%	262%	159%	144%	230%
1997	181%	204%	182%	275%	166%	154%	242%
1998	179%	209%	186%	276%	161%	142%	248%
1999	168%	196%	175%	259%	149%	136%	207%
2000	171%	202%	174%	280%	156%	135%	220%
2001	171%	202%	173%	278%	157%	135%	233%
2002	173%	207%	176%	286%	157%	137%	224%
2003	186%	218%	181%	314%	175%	152%	263%
2004	185%	219%	180%	321%	174%	154%	245%
2005	176%	210%	172%	301%	172%	160%	204%
2006*	188%	227%	187%	332%	178%	160%	244%
2007	181%	217%	177%	309%	178%	168%	209%
TY08AR	188%	226%	183%	317%	185%	177%	213%

Year	System-Wide Average	Compared to Average			Compared to Average		
		Total	Single-Piece	Presort	Total	Regular	ECR
1994	155%	1.08	0.97	1.39	0.95	0.85	1.40
1995	163%	1.06	0.93	1.52	0.96	0.86	1.39
1996	164%	1.07	0.91	1.60	0.97	0.88	1.40
1997	181%	1.13	1.01	1.52	0.92	0.85	1.34
1998	179%	1.17	1.04	1.54	0.90	0.79	1.39
1999	168%	1.17	1.04	1.54	0.89	0.81	1.23
2000	171%	1.18	1.02	1.64	0.91	0.79	1.29
2001	171%	1.18	1.01	1.63	0.92	0.79	1.36
2002	173%	1.20	1.02	1.65	0.91	0.79	1.29
2003	186%	1.17	0.97	1.69	0.94	0.82	1.41
2004	185%	1.18	0.97	1.74	0.94	0.83	1.32
2005	176%	1.19	0.98	1.71	0.98	0.91	1.16
2006*	188%	1.21	0.99	1.77	0.95	0.85	1.30
2007	181%	1.20	0.98	1.71	0.98	0.93	1.15
TY08AR	188%	1.20	0.97	1.69	0.98	0.94	1.13

Source: R97-1, ABA/EEI/NAPM-T-1, Page 37; USPS, Cost and Revenue Analysis, Fiscal Year 1994 through 2005; for 2007, revenues are from R2006-1, USPS-LR-L-131, Exhibit -31C and volume variable costs are from R2006-1, USPS-T-10, Exhibit USPS-10I. TY2008 data are from R2006-1, LR-L-131, Exhibit USPS-31B.

* Values for 2006 are from R2005-1, TY2006, USPS-T-27, Exhibit USPS-27B.

Alternative table prepared by witness O'Hara

**Recent Cost Coverages For First Class and Standard Mail
Compared to System-Wide Average for All Mail & Special Services**

Year	System-Wide Average	First-Class Mail Letters			Standard Mail		
		Total	Single-Piece	Presort	Total excl. SP	Regular + NP	ECR + NECR
1994	155%	162%	147%	209%	149%	125%	209%
1995	163%	168%	151%	227%	158%	133%	223%
1996	164%	178%	154%	262%	160%	136%	226%
1997	181%	205%	182%	275%	168%	144%	234%
1998	179%	209%	186%	276%	163%	136%	240%
1999	168%	197%	175%	259%	149%	131%	201%
2000	171%	202%	174%	280%	155%	135%	220%
2001	171%	203%	173%	278%	156%	135%	233%
2002	173%	207%	176%	286%	156%	137%	224%
2003	186%	218%	181%	314%	174%	152%	263%
2004	185%	220%	180%	321%	173%	156%	245%
2005	176%	211%	172%	301%	172%	160%	204%
FY06BR	176%	214%	174%	303%	173%	162%	207%
FY07AR	181%	220%	177%	309%	178%	168%	209%
TY08AR	189%	229%	186%	312%	185%	176%	214%
		Compared to Average			Compared to Average		
1994	155%	1.05	0.95	1.35	0.96	0.81	1.35
1995	163%	1.03	0.93	1.39	0.97	0.82	1.37
1996	164%	1.09	0.94	1.60	0.98	0.83	1.38
1997	181%	1.13	1.01	1.52	0.93	0.80	1.30
1998	179%	1.16	1.04	1.54	0.91	0.76	1.34
1999	168%	1.17	1.04	1.54	0.89	0.78	1.19
2000	171%	1.18	1.02	1.64	0.91	0.79	1.28
2001	171%	1.18	1.01	1.62	0.91	0.79	1.36
2002	173%	1.20	1.02	1.65	0.90	0.79	1.29
2003	186%	1.17	0.97	1.69	0.94	0.82	1.41
2004	185%	1.19	0.97	1.73	0.93	0.84	1.32
2005	176%	1.19	0.97	1.71	0.97	0.91	1.16
FY06BR	176%	1.22	0.99	1.72	0.99	0.92	1.18
FY07AR	181%	1.21	0.98	1.71	0.98	0.93	1.16
TY08AR	189%	1.21	0.99	1.66	0.98	0.94	1.14

Sources:

FY 1994 through FY 2005: USPS Cost and Revenue Analyses & Cost Segments and Components reports for the indicated years.

FY06BR: USPS-LR-L-174, _BR Rate Level Workpapers.xls, tab "BR 2006 Rev & Cost"

FY07AR: USPS-LR-L-174, _AR Rate Level Workpapers.xls, tab "AR 2007 Rev & Cost"

TY08AR: USPS-LR-L-174, _AR Rate Level Workpapers.xls, tab "AR 2008 Rev & Cost"

Difference between ABA-NAPM table (p. 1) and witness O'Hara alternative (p. 2)

Year	System- Wide Average	First-Class Mail			Standard Mail		
		Total	Piece	Presort	Total	Regular	ECR
1994	-0.2%	-4.9%	-3.2%	-6.6%	1.1%	-6.1%	-7.5%
1995	-0.2%	-4.9%	0.1%	-20.2%	1.2%	-6.8%	-4.4%
1996	-0.3%	3.0%	3.5%	-0.2%	1.2%	-8.0%	-4.1%
1997	-0.5%	0.8%	-0.4%	-0.3%	2.5%	-9.9%	-8.0%
1998	0.3%	-0.4%	-0.2%	0.5%	1.9%	-5.9%	-8.4%
1999	0.3%	1.1%	0.0%	0.2%	0.2%	-5.1%	-6.5%
2000	0.4%	0.3%	0.3%	0.5%	-0.8%	0.0%	0.0%
2001	0.3%	0.5%	0.5%	0.0%	-0.7%	0.4%	0.2%
2002	0.2%	0.3%	0.1%	0.4%	-1.1%	-0.1%	-0.2%
2003	0.3%	0.4%	-0.4%	0.4%	-0.7%	0.1%	-0.1%
2004	0.5%	1.2%	0.2%	-0.1%	-0.8%	2.4%	-0.3%
2005	0.4%	0.7%	-0.3%	-0.1%	-0.1%	-0.1%	0.0%
2006	-12.2%	-12.6%	-12.6%	-29.0%	-4.5%	2.5%	-37.2%
FY07AR	-0.1%	2.7%	0.4%	-0.4%	-0.1%	0.3%	0.4%
TY08AR	0.7%	2.7%	3.4%	-4.7%	-0.2%	-0.5%	1.2%

Please see the discussion of the differences between the two tables in the Response to VP/USPS-T31-9, especially part (a)-(iii)