

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 SMITH TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 14, QUESTION 1  
(September 20, 2006)

The United States Postal Service hereby provides the response of witness Smith to Question 1 of Presiding Officer's Information Request (POIR) No. 14, issued August 31, 2006. Responses to Questions 2 through 5 were provided on September 14, 2006.

The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1. Please identify the source and the method of distributing the cost reductions and other programs identified in USPS-LR-L-49, to operations used in calculating both Base Year and Test Year operation specific mail processing piggyback functions in USPS-LR-L-52 and USPS-LR-L-98. Currently, the cost reductions and other programs are hard coded in tab 'CR&OP' of MPPGBY05PRC, MPPGBY08PRC and MPPGBY08 spreadsheets. Please either update the above library references so that hard-coded figures for operation specific cost reductions and other programs are linked to their corresponding sources or provide a spreadsheet that shows the distribution methodology of the cost reductions and other programs from USPS-LR-L-49.

**RESPONSE:**

Spreadsheets showing the calculations for cost reductions and other programs costs by cost pool and equipment categories (as contained in the tab 'CR&OP' of MPPGBY08 and MPPGBY08PRC spreadsheets<sup>1</sup>) are provided in USPS LR-L-181 and 182. Review of the comparable spreadsheets as originally prepared revealed some errors. These errors have been corrected, leading to minor revisions in the cost reductions and other programs results input into MPPGBY08 and MPPGBY08PRC spreadsheets, as discussed below. USPS LR-L-181 contains the spreadsheet OpsSummaryworkhours08.POIR14Q1.xls, which contains the cost reductions and other programs for input into MPPGBY08.xls. MPPGBY08.POIR14Q.xls, which is linked to OpsSummaryworkhours08.POIR 14Q1.xls, is provided to show the impacts of the changes on the outputs of MPPGBY08.xls. Likewise, USPS LR-L-182 contains the spreadsheet OpsSummaryworkhours08PRC.POIR14Q1.xls, which contains the cost reductions and other programs for input into MPPGBY08PRC.xls. MPPGBY08PRC.POIR14Q1.xls, which is linked to

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<sup>1</sup> No cost reductions and other programs inputs were used for MPPGBY05PRC.xls.

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OpsSummaryworkhours08PRC.POIR14Q1.xls, is provided to show the impacts of the changes on the outputs of MPPGBY08PRC.xls.

USPS-L-49, Attachments A-C, and G-I are the main sources for the cost reductions and other programs costs by cost pool and equipment category shown in USPS LR-L-181 in spreadsheet OpsSummaryworkhours08.POIR14Q1.xls and in USPS LR-L-182 in spreadsheet OpsSummaryworkhours08PRC.POIR14Q1.xls. Additional information from Engineering was used to split the work hour impacts of the cost reductions and other programs by LDC and equipment type, such as splitting the workhour impacts of the program OCR Enhancements for Letter Automation into LDCs 11, 14, 15 and others and splitting the maintenance labor workhours of the APPS programs by equipment type to obtain separate impacts for SPBSs (which are being removed) and the APPS (which are being deployed). The additional information was needed to relate the cost reductions and other programs workhour impacts to mail processing cost pools and equipment categories. In both OpsSummaryworkhours08.POIR14Q1.xls and OpsSummaryworkhours08PRC.POIR14Q1.xls, there is a summary of the workhours changes by program showing the consistency of the workhour impacts used in these spreadsheets with those provided in USPS LR-L-49.

As shown in the provided spreadsheets, results by cost pool and equipment category are obtained by cross walking the labor cost changes for each program and LDC to the cost pools. In some cases this process is straight forward, in other cases additional calculations are required. For instance, in programs like OCR Enhancements for Letter Automation, splitting LDC 11 labor cost changes by equipment type (OCRs

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and DBCSs) and cost pool require additional calculations. These are based on the number of each equipment type to be removed or deployed, base year labor costs per machine, along with the Operations staffing guidelines for new equipment. Similarly, APPS programs labor savings were further divided to estimate the labor cost changes for APPS, SPBS and other operations. Another example is the distribution of the LDC 17 workhour savings from the Surface Visibility program to the cost pools for allied operations at plants and BMCs, based on the relative base year labor costs for each cost pool.

Correction of errors had small impacts on the elements used to compute test year piggyback factors. The revisions lead to small modifications in the clerk and mailhandler labor cost, maintenance labor costs and supplies costs by cost pool, as shown in MPPGBY08.POIR14Q1 and MPPGBY08PRC.POIR14Q1 spreadsheets. Correcting errors involved removing the inconsistencies with the workhours reported in USPS LR-L-49 and correcting the calculation of the changes to SPBS staffing resulting from the APPS program. In addition, for the PRC version, the variabilities for some programs were incorrect. These variabilities were corrected and made consistent with that used in the PRC rollforward.