

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH BRADFORD GROUP

Docket No. MC2007-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-37-40)
(October 12, 2007)

The United States Postal Service hereby provides institutional responses to the following interrogatories of the Office of the Consumer Advocate, filed on September 28, 2007: OCA/USPS-T1-37-40.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE

OCA/USPS-T1-37. Please refer to your response to OCA/USPS-T1-25, and the file “Table 2.Resp.OCA.23-26.xls,” which shows the development of total unit costs for Standard Mail letters and flats.

- a. Please confirm that all unit cost figures displayed in the electronic Excel file Table 2.Resp.OCA.23-26.xls are “hard entered;” that is, there are no calculations in any of the cells used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs. If you do not confirm, please explain.
- b. Please provide electronic workpapers that include all calculations used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs for all Standard Mail Regular and ECR rate categories shown in Table 2.Resp.OCA.23-26.xls. Provide citations to all sources used in the calculations.

RESPONSE:

- a. Confirmed.
- b. The attached spreadsheet [Table 3.xls] was used to derive the unit cost figures.

This spreadsheet was originally used in Docket No. R2006-1 to calculate Final Adjustments. The sheets were changed to calculate total unit cost instead of the mail flow cost difference between base year and all other years including test year. Some of the data in the unit cost calculation file is not needed, but removing sheets will disrupt the links.

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OCA/USPS-T1-38. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. The notes to Table 2.Resp.OCA.23-26.xls state the following:

1- Changes were made to reflect [the] volume shift of Carrier route volume from ECR to Regular 5-digit Presort.

2- Adjustment[s] were made using special studies piggybacks instead of final adjustment piggybacks as referenced in in [sic] the sheet "piggys" in the FinAdj2008-PRC-PRCREM1.XLS

- a. Refer to note 1- above. Please provide all calculations in electronic form that resulted in the changes "made to reflect [the] volume shift of Carrier route volume from ECR to Regular 5-digit Presort." Provide citations to all sources used in the calculations.
- b. Refer to note 2- above. Please provide the special studies referred to in note 2-.

RESPONSE:

- a. This footnote was included to cite to differences between the PRC Final Adjustments and what was used to calculate the unit costs provided. The original total cost for Standard and ECR needed to be changed in order to reflect the total cost after the Carrier Route volume shift. These changes are in [Table 3.xls], sheet [Forecast Volume], cells [N48 to Q52]. The ECR total costs were summed and the Standard Regular total costs were summed to reflect the Carrier Route volume moving from ECR to Standard Regular.
- b. There were no special studies. This term is used to describe the full piggyback numbers versus the final adjustment piggyback numbers. The final adjustment piggyback numbers were calculated to better represent final adjustments. Please see [Table3.xls], sheet [Piggys].

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OCA/USPS-T1-39. Please refer to your response to OCA/USPS-T1-25, and the file “Table 2.Resp.OCA.23-26.xls,” which shows the development of total unit costs for Standard Mail letters and flats. In Table 2.Resp.OCA.23-26.xls, please refer to the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats. Also, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost.

- a. Please provide all calculations in electronic form used to calculate the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats displayed Table 2.Resp.OCA.23-26.xls.
- b. Please confirm that the mail processing unit cost, with “final adjustments,” calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, is \$0.1544. If you do not confirm, please explain and provide the correct unit cost figure.
- c. Please explain why you did not use the mail processing unit cost, with “final adjustments,” of \$0.1544 calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, in calculating the “TYAR 2008 Total Unit Cost (Dollars)” of \$0.2914 for Automation 3/5-Digit Flats in Appendix A, page 6.
- d. For Automation 3/5-Digit Flats, please confirm that the mail processing unit cost, with “final adjustments,” of \$0.1544 calculated by the Commission is a weighted average of the Adjusted Flats Mail Processing unit costs for Automation 3-Digit (\$0.20637) and 5-Digit (\$0.12532) flats, using the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats. If you do not confirm, please explain and provide the correct unit cost figure.
- e. Please confirm that the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats represents 31.88% (4,470,785,082 / 14,025,889,177) and 57.03% (7,998,429,444 / 14,025,889,177), respectively, of total Base Year flats volume. If you do not confirm, please explain and provide the correct figures.
- f. Please confirm that the Bradford Group’s volume for Automation 3-Digit and 5-Digit flats represents 93.05% (17,706,190 / 19,029,457) and 5.13% (977,047 / 19,029,457), respectively, of the Bradford Group’s total Nonautomation and Automation flats volume. If you do not confirm, please explain and provide the correct figures.
- g. Please confirm that using the Bradford Group’s volume for Automation 3-Digit and 5-Digit flats as weights, the Bradford Group’s mail processing unit costs, with “final adjustments,” would be \$0.20757 ($(\$0.21193 * 17,706,190 + 977,047 * \$0.12870) / (17,706,190 + 977,047)$). See Excel file “OCA Exh2_FlatsCost-Adj” for calculations. If you do not confirm, please explain and provide the correct unit cost figure.

RESPONSE:

- a. The unit cost calculation of \$0.1585 is in [Table 3.xls], Sheet [MP], cell [z38].

The calculations to derive this number can be followed within Table3.xls.

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- b. Not confirmed. Unit cost \$0.1544 is for Test Year Before Rates Standard Mail Regular, Automation 3/5-Digit Flats. This is an input by the PRC as it is in [Table 3.xls], sheet [MP], cell [n38] used to calculate total unit cost. The number that is used to derive total unit cost for 2008 After Rates is \$0.1585, and the calculations can be followed in the file [Table 3.xls], sheet [MP], cell [z38]. Unit cost \$0.1585 is for Test Year After Rates Standard Mail Regular, Automation 3/5-Digit Flats.
- c. The \$0.1544 figure was used in the calculations. It is included in [Table 3.xls], sheet [MP], cell [n38].
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Confirmed.

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OCA/USPS-T1-40. Please refer to your response to OCA/USPS-T1-25, and the file “Table 2.Resp.OCA.23-26.xls,” which shows the development of total unit costs for Standard Mail letters and flats. Also, please refer to the following table entitled “OCA Exhibit 2, Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs,” and the accompanying electronic Excel file “OCA Exh2_FlatsCost-Adj.” In addition, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost

OCA Exhibit 2
Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs

Mail Category	TYAR 2008	Mail Volume (Pieces)	Mail Volume (Percent)	Unit Flat Cost	Ratio	Total	Adj.
	Total Unit Cost (Dollars)			w/Contingency (Dollars)	Mail Proc Unit Costs (A)	Mail Proc Unit Cost (Dollars) (12)	Mail Proc Unit Cost (Dollars)
	(1)	(2)	(3)	(4)	(A)	(12)	
Nonautomation							
Mixed ADC	0.405	4,266	0.0%				
AADC	0.405	89,931	0.5%				
3-digit	0.305	223,475	1.2%				
5-digit	0.305	11,886	0.1%				
Automation							
Mixed ADC	0.399	1,194	0.0%				
AADC	0.399	15,468	0.1%				
3-digit	0.345	17,706,190	93.0%		1.0269	0.20637	\$0.21193
5-digit	0.262	977,047	5.1%		1.0269	0.12532	\$0.12870
Total/average	0.340	19,029,456	100.0%	\$ 0.344			
Standard Mail ECR Flat Unit Cost							
Mail Category	TYAR 2008 Total Unit Cost (Dollars)	Mail Volume (Pieces)	Mail Volume (Percent)	Unit Flat Cost w/Contingency (Dollars)			
	(5)	(6)	(7)	(8)			
Basic Nonletters	0.122	37,912,640	100.0%				
Total/Average	0.122	37,912,640	100.0%	\$ 0.123			
			(9)	\$ 0.197			

- a. In the table above, please confirm that the unit costs shown in column (1), “TYAR 2008 Total Unit Cost”, using the Commission-calculated mail processing unit costs, with “final adjustments,” are correct. If you do not confirm, please explain.
- b. Please confirm that the Bradford Group’s total unit flats cost should be \$0.197, rather than \$0.180, as shown in Appendix A, page 6, column (4), entitled “Unit [Flat] Cost w/Contingency (Dollars)”. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. The unit costs shown for Automation 3-digit and 5-digit are not what the Commission used. The Commission used the unit costs from PRC-LR-8.

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- b. Not confirmed. It appears there was an attempt here to split the 3-digit and 5-digit by using mail processing costs only, which is not correct. The total cost of \$0.180 would remain the same because the costs were weighted by volume when they were combined. Mail processing costs are the only costs where there is a calculable difference between 3-digit and 5-digit but for all other costs there would be no difference between 3-digit and 5-digit. Averaging all costs (which also includes window, delivery, vehicle service driver, and transportation costs) by just mail processing costs would not be accurate.