

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

REVISED RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3
(QUESTIONS 1, 2, 3(a)) [ERRATA]

The United States Postal Service hereby provides the revised responses of witness Taufique to Presiding Officer's Information Request No. 3, Questions 1, 2 and 3(a). In the original responses to these questions filed on May 18, 2005, the Postal Service neglected to attach the spreadsheets referenced in the answers to Questions 1, 2a and 3a. The Postal Service regrets any inconvenience caused by this oversight, which is corrected by the filing of the revised responses today. In the revised responses, there are no changes in the text of the original narrative portions of each response. Each question is stated verbatim and is followed by the response – including each referenced spreadsheet this time.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Michael. T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1134
(202) 268-2998; Fax -5402
May 25, 2005

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

1. Please confirm the mail processing, delivery, and total workshare unit costs; discounts; and percentage passthroughs for First-Class Mail shown in Table 1. Provide corrections as appropriate. All costs reflect the Commission's methodology used in Docket No. R2001-1, as presented by the Postal Service in the current docket.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3
Revised: May 24, 2005**

Table 1. First-Class Mail
Docket No. F2005-1
Worksharing Discounts
PRC Version (Amounts in Cents per Piece)

	Mail Processing Unit Cost (1)	Source for Mail Proc Unit Cost	Delivery Unit Cost (2)	Source for Delivery Unit Cost (4)	Total Workshare Unit Cost (3)=(1)+(2)	Discount 1/ (4)	Percentage Passthrough (5)
1	3.447	LR-K-104, Sec. A, p.1, Col.3, G12	N/A		3.447		
2	1.249	LR-K-104, Sec. A, p.1, Col.3, G13	N/A		1.249		
3					2.198	3.2	146%
<u>Presort Letter Differentials</u>							
4	10.710	LR-K-110, p.1, Col.2, F9	3.972	LR-K-110, p.1, Col.3, H9	14.682		
5	12.459	LR-K-110, p.1, Col.2, F19	3.875	LR-K-110, p.1, Col.3, H19	16.334		
6					(1.652)	1.9	-115%
7	10.710	LR-K-110, p.1, Col.2, F9	3.972	LR-K-110, p.1, Col.3, H9	14.682		
8	4.872	LR-K-110, p.1, Col.2, F20	4.155	LR-K-110, p.1, Col.3, H20	9.027		
9					5.655	6.4	113%
10	4.872	LR-K-110, p.1, Col.2, F20	4.155	LR-K-110, p.1, Col.3, H20	9.027		
11	3.944	LR-K-110, p.1, Col.2, F21	3.981	LR-K-110, p.1, Col.3, H21	7.925		
12					1.102	0.9	82%
13	3.944	LR-K-110, p.1, Col.2, F21	3.981	LR-K-110, p.1, Col.3, H21	7.925		
14	3.610	LR-K-110, p.1, Col.2, F22	3.903	LR-K-110, p.1, Col.3, H22	7.513		
15					0.412	0.9	218%
16	3.610	LR-K-110, p.1, Col.2, F22	3.903	LR-K-110, p.1, Col.3, H22	7.513		
17	2.414	LR-K-110, p.1, Col.2, F23	3.695	LR-K-110, p.1, Col.3, H23	6.109		
18					1.404	1.5	107%
19	2.759	LR-K-110, p.1, Col.2, F24	6.280	LR-K-110, p.1, Col.3, H24	9.039		
20	1.843	LR-K-110, p.1, Col.2, F25	6.136	LR-K-110, p.1, Col.3, H25	7.979		
21					1.060	0.3	28%
<u>Automation Presort Flat Differentials</u>							
22	30.109	LR-K-102, p.1, Col.11, E36	8.978	LR-K-101, Table 1, C26	39.087		
23	22.241	LR-K-102, p.1, Col.11, E38	8.978	LR-K-101, Table 1, C26	31.219		
24					7.868	0.8	10%
25	22.241	LR-K-102, p.1, Col.11, E38	8.978	LR-K-101, Table 1, C26	31.219		
26	19.898	LR-K-102, p.1, Col.11, E40	8.978	LR-K-101, Table 1, C26	28.876		
27					2.343	1.2	51%
28	19.898	LR-K-102, p.1, Col.11, E40	8.978	LR-K-101, Table 1, C26	28.876		
29	8.375	LR-K-102, p.1, Col.11, E42	8.978	LR-K-101, Table 1, C26	17.353		
30					11.523	2.1	18%
<u>Presort Cards Differentials</u>							
31	6.356	LR-K-110, p.34, Col.2, D9	2.847	LR-K-110, p.34, Col.3, F9	9.203		
32	2.863	LR-K-110, p.34, Col.2, D10	2.981	LR-K-110, p.34, Col.3, F10	5.844		
33					3.359	1.9	57%
34	2.863	LR-K-110, p.34, Col.2, D10	2.981	LR-K-110, p.34, Col.3, F10	5.844		
35	2.314	LR-K-110, p.34, Col.2, D11	2.853	LR-K-110, p.34, Col.3, F11	5.167		
36					0.677	0.7	103%
37	2.314	LR-K-110, p.34, Col.2, D11	2.853	LR-K-110, p.34, Col.3, F11	5.167		
38	2.116	LR-K-110, p.34, Col.2, D12	2.796	LR-K-110, p.34, Col.3, F12	4.912		
39					0.255	0.4	157%
40	2.116	LR-K-110, p.34, Col.2, D12	2.796	LR-K-110, p.34, Col.3, F12	4.912		
41	1.429	LR-K-110, p.34, Col.2, D13	2.644	LR-K-110, p.34, Col.3, F13	4.073		
42					0.839	0.7	83%
43	1.612	LR-K-110, p.34, Col.2, D14	4.534	LR-K-110, p.34, Col.3, F14	6.146		
44	1.070	LR-K-110, p.34, Col.2, D15	4.430	LR-K-110, p.34, Col.3, F15	5.500		
45					0.646	0.7	108%

1/ Discounts calculated using the proposed rates shown in Exhibit USPS-28A, page 1 of 65.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

RESPONSE TO QUESTION 1:

The Postal Service in this particular case did not rely on cost avoidances to calculate the discount and subsequent rates for the various presort and automation categories. Rather, a target increase of 5.4 percent was uniformly applied to almost all rates. This caused the benchmark rates and the discounts to increase by the same percent, except for differences due to rounding constraints. Nevertheless, for the purpose of responding to this Presiding Officer's Information Request (POIR), I can verify the cost numbers used and the calculations performed, and offer some observations on how these calculations would fit into the overall rate design framework in a more traditional case.

Generally, the ratemaking process is not a mechanical process. Cost avoidances are analyzed, passthroughs are calculated, but proposed and recommended rates take into account the nine rate making criteria with a full assessment of the impact of rates on customers.

The arithmetic, i.e. the derivation of cost avoidances, discounts and the calculation of passthrough percents, is accurate. The underlying cost study that estimates the mail processing unit cost for letters is being revised (see LR-K-48 and LR-K-110). Errata will be filed very soon later, but I have replicated the arithmetic and produced a new version of Table 1 using the revised mail processing unit costs for letters.

The Postal Service calculates discounts and cost avoidances for workshared letters based on the First-Class Mail Single-Piece rate and the benchmark cost of Bulk Metered Mail Letters, respectively. I have calculated the

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 1(continued):

passthroughs using this Postal Service methodology in Table 1A. The Postal Service methodology and the methodology in the question would be identical if passthroughs of 100 percent were used at each step. But, if passthroughs differ from 100 percent, then the Postal Service methodology has an advantage of keeping the passthrough at each level independent of passthroughs at the previous levels. That is, the passthrough is calculated based on the full amount of worksharing performed between the benchmark and a given level of worksharing rather than only the incremental worksharing between discount levels. This is illustrated by the following simple example:

Rate Category	Cost Avoidance	Discount	Passthrough (Incremental)	Passthrough (Total)
Basic	4 cents	3 cents	$3 / 4 = 75 \%$	$3 / 4 = 75 \%$
3-Digit	6 cents	7 cents	$(7-3)/(6-4) = 200\%$	$7/6 = 117\%$
5-Digit	8 cents	8 cents	$(8-7)/(8-6) = 50\%$	$8/8 = 100\%$

I would like to provide some observations on the use of a similar methodology for calculating passthroughs for First-Class Mail flat shaped pieces and Cards. Neither the Postal Service nor the Postal Rate Commission has used the cost avoidances directly to calculate the rates for Automation presorted flats. The rates for flats have been proposed by the Postal Service and recommended by the Commission based on other rate relationships considerations.

For First-Class Mail Cards, there is no single-piece benchmark for the calculation of cost avoidances. The cost avoidances for automation cards are calculated as the incremental costs avoided from the nonautomation presort tier to the appropriate automation tier. The mail processing cost models for cards use

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 1(continued):

the letters cost model studies with appropriate ratios. In other words, there is no independent mail processing cost model for cards.

Table 1. First-Class Mail
Docket No. R2005-1
Workshing Discounts
PRC Version (Amounts in Cents per Piece)

	Mail Processing Unit Cost (1)	Source for Mail Proc Unit Cost	Delivery Unit Cost (2)	Source for Delivery Unit Cost	Total Workshare Unit Cost (3)=(1)+(2)	Discount 1/ (4)	Percentage Passthrough (5)
1 Handwritten Reply Mail Cards / Letters	3.447	LR-K-104, Sec. A, p.1, Col.3, G12	N/A		3.447		
2 QBRM Cards / Letters	1.249	LR-K-104, Sec. A, p.1, Col.3, G13	N/A		1.249		
3 QBRM Cards / Letters Differential (L.1 - L.2)					2.198	3.2	146%
<u>Presort Letter Differentials</u>							
4 Bulk Metered Mail Letters	11.231	LR-K-110, p.1, Col.2, F9	3.972	LR-K-110, p.1, Col.3, H9	15.203		
5 Nonauto Presort Machinable Letters	12.891	LR-K-110, p.1, Col.2, F19	3.875	LR-K-110, p.1, Col.3, H19	16.766		
6 Nonauto Presort Mach. Letter Differential (L.4 - L.5)					(1.563)	1.9	-122%
7 Bulk Metered Mail Letters	11.231	LR-K-110, p.1, Col.2, F9	3.972	LR-K-110, p.1, Col.3, H9	15.203		
8 Auto Mixed AADC Letters	4.917	LR-K-110, p.1, Col.2, F20	4.155	LR-K-110, p.1, Col.3, H20	9.072		
9 Auto Mixed AADC Letters Differential (L.7 - L.8)					6.131	6.4	104%
10 Auto Mixed AADC Letters	4.917	LR-K-110, p.1, Col.2, F20	4.155	LR-K-110, p.1, Col.3, H20	9.072		
11 Auto AADC Letters	3.992	LR-K-110, p.1, Col.2, F21	3.981	LR-K-110, p.1, Col.3, H21	7.973		
12 Auto AADC Letters Differential (L.10 - L.11)					1.099	0.9	82%
13 Auto AADC Letters	3.992	LR-K-110, p.1, Col.2, F21	3.981	LR-K-110, p.1, Col.3, H21	7.973		
14 Auto 3-Digit Presort Letters	3.659	LR-K-110, p.1, Col.2, F22	3.903	LR-K-110, p.1, Col.3, H22	7.562		
15 Auto 3-Digit Presort Letters Differential (L.13 - L.14)					0.411	0.9	219%
16 Auto 3-Digit Presort Letters	3.659	LR-K-110, p.1, Col.2, F22	3.903	LR-K-110, p.1, Col.3, H22	7.562		
17 Auto 5-Digit Presort Letters	2.542	LR-K-110, p.1, Col.2, F23	3.695	LR-K-110, p.1, Col.3, H23	6.237		
18 Auto 5-Digit Presort Letters Differential (L.16 - L.17)					1.325	1.5	113%
19 Auto 5-Digit Presort Letters (CSBCS/Manual Sites)	2.811	LR-K-110, p.1, Col.2, F24	6.280	LR-K-110, p.1, Col.3, H24	9.091		
20 Auto Carrier Route Presort Letters	1.898	LR-K-110, p.1, Col.2, F25	6.136	LR-K-110, p.1, Col.3, H25	8.034		
21 Auto Carrier Route Presort Letters Differential (L.119 - L.20)					1.057	0.3	28%
<u>Automation Presort Flat Differentials</u>							
22 Auto Mixed ADC Presort Flats	30.109	LR-K-102, p.1, Col.11, E36	8.978	LR-K-101, Table 1, C26	39.087		
23 Auto ADC Presort Flats	22.241	LR-K-102, p.1, Col.11, E38	8.978	LR-K-101, Table 1, C26	31.219		
24 Auto ADC Presort Flats Differential (L.22 - L.23)					7.868	0.8	10%
25 Auto ADC Presort Flats	22.241	LR-K-102, p.1, Col.11, E38	8.978	LR-K-101, Table 1, C26	31.219		
26 Auto 3-Digit Presort Flats	19.898	LR-K-102, p.1, Col.11, E40	8.978	LR-K-101, Table 1, C26	28.876		
27 Auto 3-Digit Presort Flats Differential (L.25 - L.26)					2.343	1.2	51%
28 Auto 3-Digit Presort Flats	19.898	LR-K-102, p.1, Col.11, E40	8.978	LR-K-101, Table 1, C26	28.876		
29 Auto 5-Digit Presort Flats	8.375	LR-K-102, p.1, Col.11, E42	8.978	LR-K-101, Table 1, C26	17.353		
30 Auto 5-Digit Presort Flats Differential (L.28 - L.29)					11.523	2.1	18%
<u>Presort Cards Differentials</u>							
31 NonAuto Presort Cards	6.496	LR-K-110, p.34, Col.2, D9	2.847	LR-K-110, p.34, Col.3, F9	9.343		
32 Auto Mixed AADC Cards	2.896	LR-K-110, p.34, Col.2, D10	2.981	LR-K-110, p.34, Col.3, F10	5.877		
33 Auto Mixed AADC Cards Differential (L.31 - L.32)					3.466	1.9	55%
34 Auto Mixed AADC Cards	2.896	LR-K-110, p.34, Col.2, D10	2.981	LR-K-110, p.34, Col.3, F10	5.877		
35 Auto AADC Cards	2.347	LR-K-110, p.34, Col.2, D11	2.853	LR-K-110, p.34, Col.3, F11	5.200		
36 Auto AADC Cards Differential (L.34 - L.35)					0.677	0.7	103%
37 Auto AADC Cards	2.347	LR-K-110, p.34, Col.2, D11	2.853	LR-K-110, p.34, Col.3, F11	5.200		
38 Auto 3-Digit Presort Cards	2.149	LR-K-110, p.34, Col.2, D12	2.796	LR-K-110, p.34, Col.3, F12	4.945		
39 Auto 3-Digit Presort Cards Differential (L.37 - L.38)					0.255	0.4	157%
40 Auto 3-Digit Presort Cards	2.149	LR-K-110, p.34, Col.2, D12	2.796	LR-K-110, p.34, Col.3, F12	4.945		
41 Auto 5-Digit Presort Cards	1.456	LR-K-110, p.34, Col.2, D13	2.644	LR-K-110, p.34, Col.3, F13	4.100		
42 Auto 5-Digit Presort Cards Differential (L.40 - L.41)					0.845	0.7	83%
43 Auto 5-Digit Presort Cards (CSBCS/Manual Sites)	1.646	LR-K-110, p.34, Col.2, D14	4.534	LR-K-110, p.34, Col.3, F14	6.180		
44 Auto Carrier Route Presort Cards	1.105	LR-K-110, p.34, Col.2, D15	4.430	LR-K-110, p.34, Col.3, F15	5.535		
45 Auto Carrier Route Presort Cards Differential (L.43 - L.44)					0.645	0.7	109%

1/ Discounts calculated using the proposed rates shown in Exhibit USPS-28A, page 1 of 65.

Table 1A. Passthroughs Calculated Using the Postal Service Methodology

	Nonautomation			3-Digit Automation	5-Digit Automation
	Presort	Mixed AADC	AADC	Letters	Letters
Single Piece	0.390	0.390	0.390	0.390	0.390
Discounted Rate	0.371	0.326	0.317	0.308	0.293
Discount	0.019	0.064	0.073	0.082	0.097
Benchmark	15.203	15.203	15.203	15.203	15.203
Workshare Unit Cost	16.766	9.072	7.973	7.562	6.237
Differential	-1.563	6.131	7.230	7.641	8.966
Percentage Passthrough	-122%	104%	101%	107%	108%
	Carrier Route Automation Letters				
	Carrier Route				
5-Digit	0.293				
Discounted Rate	0.29				
Discount	0.003				
Benchmark (5-Digit Manual)	9.091				
Carrier Route	8.034				
Differential	1.056				
Percentage Passthrough	28%				

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

2. The unit savings in mail processing and delivery costs for Periodicals mail are shown in Tables 2A and 2B and the methodology is shown in Table 2C. The unit delivery costs shown for Within County are from Docket No. R2001-1. (Please note that POIR No. 2, questions 1 and 8 concern unit delivery costs for Periodicals mail.) The proposed discounts and resulting passthroughs are shown in Table 2D. All costs reflect the Commission's methodology used in Docket No. R2001-1, as presented by the Postal Service in the current docket.

- a. Please confirm the mail processing, delivery, and total workshare unit costs; discounts; and percentage passthroughs in Tables 2A, 2B, and 2D. Please provide corrections as appropriate.
- b. Please explain fully the rationale for the calculations of the 3-digit and 5-digit automation letter cost savings. Please include in your explanation the reason for not simply using the difference between basic nonautomation and 3-digit and 5-digit automation letters as the basis for the discounts.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3
Revised: May 24, 2005**

**Table 2A
Outside County Mail Processing and Delivery Unit Savings**

	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Presort Savings (In Cents)	
Basic Non-automation	28.070	10.689	38.759		[1]
3-Digit Non-automation	20.183	10.689	30.872	7.900	[2]
5-Digit Non-automation	14.438	10.689	25.127	5.700	[3]
Carrier Route	9.131	6.173	15.304	9.800	[4]

Source: MP USPS-K-102, p 34, Del USPS-K-101 Table 1 except CR (See note)

	Barcoded Letter-Size			Automation Savings (In Cents)	
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	(In Cents)	
Non-automation Letters					
Basic	18.668	4.335	23.003	0.000	[5]
3/5 Digit	16.065	4.678	20.743	0.000	[6]
Automation Letters					
Basic	3.115	3.737	6.852	31.907	[7]
3-Digit	2.806	3.699	6.505	29.994	[8]
5-Digit	1.766	3.599	5.365	31.134	[9]

Source: USPS-T-21, Table 2, USPS-LR-K-110, Table 1 (p 57), Table 1, USPS-K-101, Table 1

	Barcoded Flat Size			Automation Savings (In Cents)	
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	(In Cents)	
Basic	26.289	9.795	36.084	2.676	[10]
3-Digit	19.345	9.795	29.140	1.733	[11]
5-Digit	13.878	9.795	23.673	1.455	[12]

Source: MP USPS-K-102, p 34, Del USPS-K-101 Table 1

	Carrier Route				
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Savings (In Cents)	
Basic Carrier Route	3.115	4.615	7.730	0.000	[13]
High Density	1.466	3.550	5.016	2.714	[14]
Saturation	1.466	3.049	4.515	3.215	[15]

Source: MP USPS-LR-K-107, Table 1, (Del: See note)

Note: Carrier delivery costs are the subject of question 1 of POIR No. 2.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

**Table 2B
Within County Mail Processing and Delivery Unit Savings**

	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Presort Savings (In Cents)	
Basic Nonautomation	28.070	10.689	38.759		[1]
3-Digit Nonautomation	20.183	10.689	30.872	7.900	[2]
5-Digit Nonautomation	14.438	10.689	25.127	5.700	[3]
Carrier Route	9.131	6.173	15.304	9.800	[4]

Source: MP USPS-K-102, p 34, Del USPS-K-101 Table 1 except CR (See note)

Barcoded Letter-Size					
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Automation Savings (In Cents)	
Nonautomation Letters					
Basic	18.668	4.335	23.003	0.000	[5]
3/5-Digit	16.065	4.678	20.743	0.000	[6]
Automation Letters					
Basic	3.115	3.737	6.852	31.907	[7]
3-Digit	2.806	3.699	6.505	29.994	[8]
5-Digit	1.766	3.599	5.365	31.134	[9]

Source: USPS-T-21, Table 2, USPS-LR-K-110, Table 1 (p 57), Table 1, USPS-K-101, Table 1

Barcoded Flat Size					
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Automation Savings (In Cents)	
Basic	26.289	9.795	36.084	2.676	[10]
3-Digit	19.345	9.795	29.140	1.733	[11]
5-Digit	13.878	9.795	23.673	1.455	[12]

Source: MP USPS-K-102, p 34, Del USPS-K-101 Table 1

Carrier Route					
	Mail Processing (In Cents)	Delivery (In Cents)	Total (In Cents)	Savings (In Cents)	
Basic Carrier Route	3.115	4.615	7.730	0.000	[13]
High Density	1.466	3.550	5.016	2.714	[14]

Note: Carrier delivery costs are the subject of question 8 of POIR No. 2.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**
Revised: May 24, 2005

**Table 2C
Difference Calculations**

Basic Nonautomation	[1]
3-Digit Nonautomation	[2]
3-Digit Differential	[1] - [2]
3-Digit Nonautomation	[2]
5-Digit Nonautomation	[3]
5-Digit Differential	[2] - [3]
5-Digit Nonautomation	[3]
Carrier Route Nonautomation	[4]
Carrier Route Differential	[3] - [4]
Basic Nonautomation	[1]
Basic Automation Letters	[7]
Basic Automation Letter Differential	[1] - [7]
Basic Nonautomation	[1]
Basic Nonautomation Letters	[5]
3/5-Digit Nonautomation Letters	[6]
3-Digit Automation Letters	[8]
3-Digit Automation Letter Differential	([1] - [5]) + ([6] - [8])
Basic Nonautomation	[1]
Basic Nonautomation Letters	[5]
3/5-Digit Nonautomation Letters	[6]
5-Digit Automation Letters	[9]
5-Digit Automation Letter Differential	([1] - [5]) + ([6] - [9])
Basic Nonautomation	[1]
Basic Barcoded Flat	[10]
Basic Automation Flat Differential	[1] - [10]
3-Digit Nonautomation	[2]
3-Digit Barcoded Flat	[11]
3-Digit Automation Flat Differential	[2] - [11]
5-Digit Nonautomation	[3]
5-Digit Barcoded Flat	[12]
5-Digit Automation Flat Differential	[3] - [12]
Basic Carrier Route	[13]
High Density Carrier Route	[14]
High Density Carrier Route Differential	[13] - [14]
Basic Carrier Route	[13]
Saturation Carrier Route	[15]
Saturation Differential	[13] - [15]

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

**Table 2D
Periodicals Mail Unit Cost Avoidances and Passthroughs**

	Unit Avoidable Cost	Discount	% Pass- through
Basic Nonautomation	---	---	---
Basic Nonautomation Letter	31.907	9.700	30%
Basic Nonautomation Flat	2.676	5.000	187%
3-Digit Nonautomation	7.887	5.200	66%
3-Digit Nonautomation Letter	29.994	7.900	26%
3-Digit Nonautomation Flat	1.733	4.300	248%
5-Digit Nonautomation	5.745	12.300	214%
5-Digit Nonautomation Letter	31.134	6.400	21%
5-Digit Nonautomation Flat	1.455	3.200	220%
Carrier Route Basic \1	9.823	22.100	225%
Carrier Route High Density \1	3.138	3.400	108%
Carrier Route Saturation \1	3.714	5.400	145%
Wksharing Discnt Delivery Office Entry	2.750	1.800	65%
Wksharing Discnt SCF Entry	1.350	0.800	59%
Wksharing Discnt ADC Entry	0.290	0.200	69%
Wksharing Discnt Palletized Pieces	1.217	0.500	41%
Palletized Pieces Discount Destination Entry	1.200	1.600	133%

Within County

Basic Nonautomation	---	---	---
Basic Nonautomation Letter	31.907	5.275	17%
Basic Nonautomation Flat	2.676	2.700	101%
3-Digit Nonautomation	7.900	0.800	10%
3-Digit Nonautomation Letter	29.994	4.664	16%
3-Digit Nonautomation Flat	1.733	2.300	133%
5-Digit Nonautomation	5.700	1.000	18%
5-Digit Nonautomation Letter	31.134	3.900	13%
5-Digit Nonautomation Flat	1.455	1.900	131%
Carrier Route Basic \1	9.800	3.475	35%
Carrier Route High Density \2	2.714	1.525	56%
Carrier Route Saturation \2	3.215	2.125	66%
Workksharing Discount Delivery Office Entry	1.043	0.600	58%

\1 The unit delivery costs for these carrier route categories have not been verified. See POIR No. 2 question 1.

\2 The unit delivery costs for these carrier route categories are from Docket No. R2001-1 USPS-LR-J-107. See POIR No. 2 question 8.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

RESPONSE TO QUESTION 2:

a. Please see my response to POIR 3, Question 1. Table 2A, lines 1, 2, 3, 4, 10, 11, and 12 are confirmed. Lines 5, 6, 7, 8, 9, 13, 14, and 15 are not confirmed. See the attached Excel spreadsheet for the corrected numbers. Lines 5 through 9 are not confirmed because of changes in the underlying cost study for mail processing cost. Errata will be filed shortly. Also, the MP source for Barcoded Flat Size Mail Processing should be page 35 instead of page 34. Lines 13 through 15 should use the delivery cost numbers from POIR 2 Question 1. My comments for Table 2A also apply to Table 2B.

Table 2D Outside County. "Nonautomation" should be changed to "Automation" for lines 2, 3, 5, 6, 8, and 9. The Presort passthroughs are 66, 124 and 100 percent for 3-Digit, 5-Digit and Carrier Route respectively, instead of 26, 214 and 225 percents. The Automation Flats passthroughs are confirmed. The Automation Letters passthroughs are confirmed except for 5-Digit Automation letter, which should be 20 percent instead of 21 percent. The Carrier Route High Density and Saturation passthroughs are confirmed.

Though arithmetically correct, the dropship discounts for Destination Delivery Unit, SCF and ADC do not reflect the rate design that has been proposed by the Postal Service and recommended by the Commission in past dockets. The non-transportation (or handling) cost savings are generally divided evenly between the piece and pound rates. The true passthrough is 100 percent when this is taken into account, even though it appears as 50 percent passthrough on the piece side and a 50 percent passthrough on the pound side.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 2a (continued):

The Palletized pieces passthrough is confirmed. The Palletized pieces destination entry discount passthrough is not confirmed. The cost savings that accrue due to the dropshipment of editorial pounds are the basis for this discount. My response to POIR 10, question 1b in Docket No. R2001-1 discusses this issue. Tr. 14/5658-59. Here is the relevant portion of this response:

(b) There are no workpapers that estimate additional cost savings associated with the 1-cent dropship pallet discount (DMCS 421.49). But the dropship and pallet cost savings relied upon in my testimony provide a complete basis for the new 1-cent discount.

The original Postal Service proposal sought to provide dropship incentives by providing lower rates for editorial pounds entered at destinating facilities (DU, SCF and ADC), while maintaining a uniform editorial pound rate for all zones ranging from Zones 1 & 2 to Zone 8. The negotiated rate structure for the settlement rates instead provides a dropship pallet discount on the piece side of the rate schedule. Since virtually all dropship volume is palletized (USPS-T-34 at 17), this discount can be justified as another way to pass through some of the dropship cost savings underlying the original proposal. The original Postal Service proposal provides a discount worth \$22.2 million (LR-J-107, worksheet 'Pound Data_Ed.) for dropshipped editorial pounds based on a 50 percent passthrough of the transportation and non-transportation cost savings estimated for advertising pounds that are dropshipped. Using a still modest passthrough of 75 percent, the value of the editorial pound rate discount would be roughly equal to the value of the 1-cent discount (DMCS 421.49) on the approximately 3.3 billion palletized and dropshipped pieces.

Additional support for this discount can be provided by looking at the cost savings associated with

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 2a (continued):

palletization. As shown by witness Schenk, the cost savings for palletized pieces compared to pieces in sacks is 2.09 cents. USPS-T-43 at 6. The original pallet discount of 0.5 cents per piece is based on a small passthrough of this cost saving. An approximately 72 percent passthrough of the cost savings of 2.09 cents would lead to a 1.5 cent discount for palletized pieces.

Table 2D Within County. The two lines under Basic Nonautomation should be changed to Basic Automation Letters and Basic Automation Flats, instead of Basic Nonautomation Letters and Basic Nonautomation Flats. Similar changes should be made for the two lines under 3-Digit Nonautomation and 5-Digit Nonautomation. I estimate presort pass-throughs of 10, 17 and 36 percent, respectively, for the 3-Digit, 5-Digit and Basic Carrier Route rates, instead of 10, 18 and 35 percents. The Automation Flats passthroughs are confirmed. I estimate Automation Letters passthroughs of 17, 15, and 12 percent for Basic, 3-Digit, and 5-Digit Automation Letters, respectively, instead of the 17, 16 and 13 percent passthroughs provided in Table 2D. The Carrier Route High Density and Saturation passthroughs are estimated to be 48 and 57 percent, respectively, instead of 56 and 66 percent. I am not able to derive the passthroughs for the Delivery Office Entry discount. In a traditional rate case, this discount and the delivery unit pound rate receive some allocation of non-transportation cost avoidance and these allocations have not been done in this docket.

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 2 (continued):

b. It is my understanding that the methodology used to calculate the 3-digit and 5-digit automation letter cost unit savings has been used by Postal Service for the past three cases, and that this methodology was approved and relied upon by the Postal Rate Commission.

The Postal Service and the Commission have taken into account shape as well as automation differences in calculating the cost savings for Periodicals automation letters. The Postal Service's proposal in Docket No. R2001-1 estimated the difference between nonautomation flats (assuming that the nonautomation rate categories are overwhelmingly flats) to nonautomation letters at roughly the same presort level, and then added the difference between nonautomation letters and automation letters at a similar presort level. The method proposed in the question takes the difference between nonautomation flats and automation letters without taking into account the presort differences.

**Calculation of High Density & Saturation Passthroughs
Cost Avoidances**

Carrier Route	Mail Processing (In Cents)	Delivery¹ (In Cents)	Total (In Cents)	Savings (In Cents)
Basic Carrier Route	3.115	6.173	9.288	
High Density	1.466	4.684	6.15	3.138
Saturation	1.466	4.108	5.574	3.714

¹ See witness John Kelly's response to POIR2 Question 1

	Rates		
	Rates	Discounts	Pass-throughs
Basic Carrier Route	17.2		
High Density	13.8	3.4	108%
Saturation	11.8	5.4	145%

Calculation of Presort Passthroughs Cost Avoidances

	Mail Processing (In Cents)	Delivery (In cents)	Total (In cents)	Presort Savings (In cents)
Basic Nonautomation	28.070	10.689	38.759	
3-Digit Nonautomation	20.183	10.689	30.872	7.887
5-Digit Nonautomation	14.438	10.689	25.127	5.745
Carrier Route	9.131	6.173	15.304	9.823

Rates

	Rates	Discounts	Pass-throughs
Basic Nonautomation	10.000		
3-Digit	9.200	0.800	10%
5-digit	8.200	1.000	17%
Carrier Route	4.700	3.500	36%

Calculation of Automation Passthroughs Cost Avoidances

Flats	Barcoded Flat Size			Automation
	Mail Processing (In Cents)	Delivery (In cents)	Total (In cents)	Savings (In cents)
Basic	26.289	9.795	36.084	2.675
3-Digit	19.345	9.795	29.140	1.732
5-Digit	13.878	9.795	23.673	1.454

Rates

	Rates	Discounts	Pass-throughs
Basic Automation Flats	7.3	2.700	101%
3-Digit Automation Flats	6.9	2.300	133%
5-Digit Automation Flats	6.3	1.900	131%

Letters

Nonautomation Letters				
Basic	13.548	4.335	17.883	
3/5 Digit	11.719	4.678	16.398	
Automation Letters				
Basic	3.165	3.737	6.902	31.857
3-Digit	2.857	3.699	6.556	30.718
5-Digit	1.819	3.599	5.418	31.856

Rates

	Rates	Discounts	Pass-throughs
Basic Auto Letters	4.7	5.300	17%
3-Digit Auto Letters	4.5	4.700	15%
5-Digit Auto Letters	4.3	3.900	12%

**Calculation of High Density & Saturation Passthroughs
Cost Avoidances**

Carrier Route	Mail Processing (In Cents)	Delivery¹ (In Cents)	Total (In Cents)	Savings (In Cents)
Basic Carrier Route	3.115	6.173	9.288	
High Density	1.466	4.684	6.15	3.138
Saturation	1.466	4.108	5.574	3.714

¹ See witness John Kelly's response to POIR2 Question 1

	Rates		
	Rates	Discounts	Pass-throughs
Basic Carrier Route	4.7		
High Density	3.2	1.5	48%
Saturation	2.6	2.1	57%

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

3. Tables 3A to 3E show the development of passthrough percentages for all Standard Mail discounts based on the Postal Service's proposed rates. Tables 3A to 3D show the avoidable mail processing and delivery costs. Table 3E shows the avoidable cross docking and transportation cost. All costs reflect the Commission's methodology used in Docket No. R2001-1, as presented by the Postal Service in the current docket.

- a. Please confirm the mail processing, delivery, crossdocking, transportation, and total workshare unit costs; discounts; and percentage passthroughs in Tables 3A to 3E. Please provide corrections as appropriate.

RESPONSE:

a. I can confirm that the Mail Processing Unit Costs, Delivery Unit Costs, calculated totals of Mail Processing Unit Costs and Delivery Unit Costs and the differentials of these totals, the calculated effective discounts and the Percentage Passthroughs are correct as shown on Tables 3C and 3D, with the following exceptions and qualifications:

- Row 10, column 2, the value should be 6.173 (Source: USPS-LR-K-101.xls, Summary TY, Cell O103);
- Row 11, column 2, the value should be 4.684 (Source: USPS-LR-K-101.xls, Summary TY, Cell O104);
- Row 13, column 2, the value should be 4.684 (Source: USPS-LR-K-101.xls, Summary TY, Cell O104);
- Row 14, column 2, the source should be: USPS-LR-K-101.xls, Summary TY, Cell O105;
- Row 16, column 2, the value should be 6.173 (Source: USPS-LR-K-101.xls, Summary TY, Cell O103);
- Row 19, column 2, the value should be 4.684 (Source: USPS-LR-K-101.xls, Summary TY, Cell O104);
- Row 22, column 2, the source should be: USPS-LR-K-101.xls, Summary TY, Cell O105;

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 3a (continued):

- Row 10, column 3, the value should be 9.396;
- Row 11, column 3, the value should be 6.164;
- Row 12, column 3, the value should be 3.232;
- Row 12, column 4, the value should be 80%;
- Row 13, column 3, the value should be 6.164;
- Row 15, column 3, the value should be 0.576;
- Row 15, column 4, the value should be 156%;
- Row 16, column 3, the value should be 9.396;
- Row 18, column 3, the value should be -3.729;
- Row 18, column 4, the value should be 0%;
- Row 19, column 3, the value should be 6.164;
- Row 21, column 3, the value should be 0.672;
- Row 21, column 4, the value should be 74%;

I can confirm the same quantities and calculations for Tables 3A and 3B

with the following qualifications:

- The Standard Mail flats figures listed under column (1) "Mail Processing Unit Cost" on lines 4-5 are correct for the "worksharing related unit cost" portions of the total actual mail processing unit cost estimates.
- The figures supporting the letter/flat cost differentials on lines 7 and 10 are correct and represent total mail processing unit cost estimates for

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 3a (continued):

those rate categories. The citation for line 7, however, is incorrect. It should read "LR-K-102, p. 69, Col. 13, G33."

- For the automation presort rate categories, lines 13, 14, 16, and 17, the numbers are correct and reflect the presort-adjusted mail processing unit cost estimates.
- The source listed on line 8, column (2) is incorrect. It should be LR-K-110, p. 57, Col. 3, G13.
- Row 1, column 1, the value should be 13.548;
- Row 2, column 1, the value should be 11.719;
- Row 8, column 1, the value should be 18.665;
- Row 11, column 1, the value should be 16.071;
- Row 19, column 1, the value should be 13.548;
- Row 20, column 1, the value should be 4.022; the source should be LR-K-110, p.57, Col 2, E23;
- Row 22, column 1, the value should be 4.022; the source should be LR-K-110, p.57, Col 2, E23;
- Row 23, column 1, the value should be 3.165;
- Row 25, column 1, the value should be 11.719;
- Row 26, column 1, the value should be 2.857;
- Row 28, column 1, the value should be 2.857;
- Row 29, column 1, the value should be 1.819;
- Row 1, column 3, the value should be 17.883;
- Row 2, column 3, the value should be 16.397;

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 3a (continued):

- Row 3, column 3, the value should be 1.486;
- Row 8, column 3, the value should be 23;
- Row 9, column 3, the value should be 13.263;
- Row 11, column 3, the value should be 20.749;
- Row 12, column 3, the value should be 4.065;
- Row 19, column 3, the value should be 17.883;
- Row 20, column 3, the value should be 7.843;
- Row 21, column 3, the value should be 10.04;
- Row 21, column 5, the value should be 51%;
- Row 22, column 3, the value should be 7.843;
- Row 23, column 3, the value should be 6.902;
- Row 24, column 3, the value should be 0.941;
- Row 25, column 3, the value should be 16.397;
- Row 26, column 3, the value should be 6.556;
- Row 27, column 3, the value should be 9.841;
- Row 27, column 5, the value should be 48%;
- Row 28, column 3, the value should be 6.556;
- Row 29, column 3, the value should be 5.418;
- Row 30, column 3, the value should be 1.138;

I cannot confirm Table 3E in its entirety. The values for column (2),
Crossdocking Costs, for DBMC and DDU appear to have been switched. The

**RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

Revised: May 24, 2005

Response to Question 3a (continued):

values in column (2) have also been revised slightly. A corrected version of Table 3E is attached to this response, and I can confirm the values and calculations shown on the corrected Table 3E with the following qualifications:

- The "Per Piece" Avoidable Costs shown in column (4) are developed by pro-rating the per-pound avoidable costs to a 3.3 ounce piece. They do not necessarily represent the true or measured avoidable costs for a piece of this weight, which is unknown. Neither do these avoidable costs represent the true or measured avoidable costs for an average-weight piece-rated piece.

The descriptions of the quantities in columns (4) to (8) of the original Table 3E are potentially misleading and should be revised as shown in the corrected Table 3E.

Revised Table 3E

Docket No. R2005-1
 Dropship Avoidable Costs, Proposed Discounts, and Passthroughs
 Standard Mail
 (Amounts in Cents)

	<u>Avoidable Cost per Pound</u>			<u>Pro-Rated</u>	<u>Proposed Discounts</u>		<u>Per Pound</u>	<u>Per Piece</u>
	<u>Transportation</u>	<u>Crossdocking</u>	<u>Total</u>	<u>Avoidable Cost</u>	<u>Per Pound</u>	<u>Per Piece</u>		
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)	(7)=(5)/(3)	(8)=(6)/(4)
				(Piece-Rated Pieces Only)	(Pound-Rated Pieces Only)	(Piece-Rated Pieces Only)	(Pound-Rated Pieces Only)	(Piece-Rated Pieces Only)
1 DBMC	10.96	2.36	13.32	2.75	10.5	2.2	78.8%	80.1%
2 DSCF	13.09	4.29	17.38	3.58	13.2	2.7	76.0%	75.3%
3 DDU	15.41	5.70	15.41	3.18	16.6	3.3	107.7%	103.8%

Source: Col. 1 from USPS-LR-K-112, Excel File: AppenBPRC, Sheet: Results, Cells F43, F42 and F41
 Col. 2 from USPS-LR-K-112, Excel File: AppenCPRC, Sheet: Results, Cells E43, E42, and E41
 Col. 4 = Col. 3 * 3.3 ounces/16 ounces (Per-Pound Avoidable Cost prorated to 3.3 ounces)
 Col. 5 & 6 discounts are calculated using the proposed rates shown in Exhibit USPS-28A, pp. 16-19 of 65.