

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

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS ABDIRAHMAN TO INTERROGATORIES OF VALPAK
DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS'
ASSOCIATION, INC., REDIRECTED FROM WITNESS TAUFIQUE
(VP/USPS-T28-44 a and 47 g)

The United States Postal Service hereby files the responses of witness Abdirahman to above-listed interrogatories, filed on May 27, 2005, which were redirected from witness Taufique.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 10, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC., REDIRECTED FROM WITNESS TAUFIQUE

VP/USPS-T28-44.

Using USPS costing, from Docket No. R2001-1 to Docket No. R2005-1, the mail processing costs of the following categories of Standard Regular commercial automation letters declined by the percentages indicated: mixed AADC by 12.99 percent; AADC by 15.85 percent; 3-digit by 16.48 percent; and 5-digit by 20.64 percent (USPS/2001 from USPS-LR-J-60; USPS/2005 from USPS-LR-K-48).

At PRC costing, the corresponding declines are 14.15 percent, 15.58 percent, 16.49 percent, and 21.96 percent.

In the face of underlying inflation creep, all declines must be viewed as large (PRC/2001 from USPS-LR-J-84; and PRC/2005 from USPS-LR-K-110).

- a. Please provide the percentages of these categories that were delivery point sequenced by mail processing personnel during the periods reflected by the costs cited. If you do not know, please provide estimates.

Response:

- a. The actual Delivery Point Sequence (DPS) percentages for Standard Mail Mixed AADC, AADC, 3-digit, and 5-digit are not available. Witness Kelley relied on DPS percentages from my cost model to de-average the delivery unit costs by rate category. The estimated DPS percentages for the above rate categories can be found at LR-K-48STDLETRS, pages 75, 77, 79, and 81.

Auto Mixed AADC	79.57%
Auto AADC	82.02%
Auto 3 Digit	83.12%
Auto 5 Digit	86.05%.

Comparable DPS percentages from R2001-1 can be found in USPS-LR-J-60, pages 73, 75, 77 and 79.

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VP/USPS-T28-47.

Table 1, set out below, is taken from the first spreadsheet of file LR-K-48STDLETRS.xls of USPS-LR-K-48, and shows workshare-related costs for various categories of letter-size Standard Regular mail at USPS costing. For ease of reference, certain costs are shaded. Please note that not all of the lines in the table, including the indented lines, are for categories recognized in rates. A corresponding table in Docket No. R2001-1 is found in USPS-LR-J-60, revised November 15, 2001.

- a. Please confirm that if the Postal Service were developing discounts for automation (i.e., prebarcoded) letters based on current costs, and were following the procedures used in Docket No. R2001-1, it is the workshare-related unit costs in the shaded rows of column 4 in Table 1 that would be used. If you do not confirm, please present the costs that would be used, provide their source, and respond to the following parts of this question.
- b. Please confirm that an automation discount for mixed AADC letters would be based on a cost difference of $17.563 - 7.595 = 9.968$ cents.
- c. Please explain the extent to which you view the discount for automation mixed AADC letters to be a worksharing discount. To the extent that you do not so view it, please explain why. To the extent that you do so view it, please explain the nature of the work that is being shared.
- d. To the extent to which you view the discount for automation mixed AADC letters to be a worksharing discount, please explain the extent to which you believe this discount should be based on a cost avoidance. If you do not believe it should be based on an avoidance, please explain why. If you do so believe, please explain how that avoidance should be defined, i.e., its concept and the costs that should be used to implement the concept.
- e. Recognizing that the 17.563-cent workshare related cost for nonautomation presort letters shown in column 4 (and its mail processing and delivery components in columns 2 and 3) is a weighted average of the four costs shown immediately below it in the table, please explain the extent to which you view the cost difference of 9.968 cents to be an amount that would be avoided if a candidate basic presort letter shifts to become an automation mixed AADC letter.
- f. If an automation mixed AADC letter were to revert back to being nonautomation, is it your position that the Postal Service would experience an increase in cost of 9.968 cents? If you do, please explain how and why that cost increase would occur, and any assumptions on which it is based. If you do not, please explain why it is the appropriate cost on which to base the automation discount.

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g. As shown in Table 1, the workshare-related mail processing cost of nonautomation, machinable letters is 7.901 cents at both the mixed AADC and AADC levels, and of (ii) corresponding automation letters is 3.491 cents at the mixed AADC level and 2.772 cents at the AADC level.

(i) Please explain how the difference between the costs of 7.901 cents and 3.491 cents, for mixed AADC letters, relates to the cost the Postal Service would incur to read the address and place a barcode on the nonautomation piece.

(ii) Please explain why the worksharing-related mail processing cost of automation mixed AADC letters is 3.491 cents while the corresponding cost for AADC letters is only 2.772 cents.

(iii) Please explain why the two nonautomation costs are the same while the two automation costs differ.

Response:

(a-f) Redirected to Witness Taufique (USPS-T-28).

g. Please note the cost figures shown in table 1 were revised on 5/24/05. The nonautomation, machinable letters cost is 8.059 cents at both mixed AADC and AADC levels, and the corresponding automation letters unit cost is 3.505 cents at the mixed AADC level and 2.788 at the AADC level.

(i) The worksharing related unit cost of 8.059 cents represents the modeled cost of nonautomation machinable Mixed AADC/AADC rate levels which are adjusted for base year volume and tied back to the CRA costs using CRA adjustment factors. Please refer to USPS-LR-K-48, page 58, column (4).

The worksharing related unit cost of 3.505 cents represents the modeled cost of automation mixed AADC level which is adjusted for base year volumes and tied back to the CRA costs using CRA adjustment factors. Please refer to USPS-LR-K-48STDLETRS, page 59, column (4)

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The cost difference could be explained by the following reasons:

- 1- The nonautomation machinable mail pieces have machine printed addresses but are not prebarcoded. These pieces will be processed in the Remote Bar Code System (RBCS), which includes various hardware and software components that are designed to read and apply barcodes to machine printed mail pieces.
- 2- The second explanation is related to the concerns expressed in my response to POIR No. 1 part a.

- (ii) For the explanations of the worksharing related unit cost of 3.505 cents, please refer to my response to g (i).

The worksharing related unit cost of 2.788 cents represents the modeled cost of automation AADC level which is adjusted for base year volumes and tied back to the CRA costs using CRA adjustment factors. Please refer to USPS-LR-K-48STDLETRS, page 59. Column (4).

Modeled costs for automation Mixed AADC and AADC are shown in the revised USPS-K-48STDLETRS, pages 75 and 77, respectively. These cost differences are attributed to the Outgoing Secondary Operation costs which are incurred by Mixed AADC mail pieces. AADC mail piece do not incur such costs.

- (iii) Nonautomation costs are the same because, unlike the First -Class Mail rate structure, Standard Mail nonautomation presort has only two rate categories: nonautomation basic and nonautomation 3/5-digit. Therefore, cost models must be used to de-average the costs for Standard nonautomation presort

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letters. Please refer to USPS-LR-K-48 STDLETRS, page 63 and 65 for the
nonautomation machinable costs of mixed AADC and AADC and
nonautomation machinable costs for 3 digit and 5 digit.

The reason the automation costs for mixed AADC and AADC differ is
related to the fact Mixed AADC mail pieces incur outgoing secondary
operation costs while AADC mail pieces do not incur such costs.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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