

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

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

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Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE  
WITNESS ABDIRAHMAN TO INTERROGATORIES  
OF MAJOR MAILERS ASSOCIATION  
(MMA/USPS-T21-75-79)

The United States Postal Service hereby files the responses of witness  
Abdirahman to the above-listed interrogatories of the Major Mailers Association, filed on  
June 10, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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June 24, 2005

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO INTERROGATORY OF THE MAJOR MAILERS ASSOCIATION

### MMA/USPS-T21-75

Please refer to your response to Interrogatory MMA/USPS-T21-9 where you discuss your assumption that delivery cost for Mixed AADC Automation (MAADC) letters is a good proxy for BMM letters. In your response to part B you state that the unit delivery costs provided to you by USPS witness Kelley “reflect cost differences associated with the percentage of mail processed in Delivery Point Sequence by rate category.”

- A. Do you assume that the DPS % for MAADC letters is similarly a good proxy for BMM letters? If not, please explain.
- B. Do you assume that if a MAADC letter and a BMM letter are both DPSed, the unit cost for the MAADC letter is a good proxy for the BMM letter? If not, please explain.
- C. Do you assume that if a MAADC letter and a BMM letter are both nonDPSed, the unit cost for the MAADC letter is a good proxy for the BMM letter? If not, please explain.
- D. Is it inappropriate to assume that, if a workshared and non-workshared letter are both DPSed, the unit cost for the DPSed workshared letter is a good proxy for the non-workshared letter? Please explain your answer.
- E. Is it inappropriate to assume that if a workshared and non-workshared letter are both nonDPSed, the unit cost for the workshared letter is a good proxy for the non-workshared letter? Please explain your answer.

### Response:

In Interrogatory MMA/USPS-T21-9, I do not discuss or make the assumption that the delivery cost for Automation Mixed AADC (MAADC) letters is a good proxy for BMM letters. In my response to MMA/USPS-T21-9(H) I stated “It can be confirmed, however, that the nonautomation machinable mixed AADC presort letters delivery unit cost estimate was used as a proxy for BMM letters, due to the fact that they exhibit similar mail piece characteristics.” Therefore, I am assuming that this interrogatory is referring to Nonautomation Mixed AADC (NAMMA).

- A. In the context of our cost models, DPS percentages are not used as “proxies” because they are not a cost model input. I note, however, that the DPS percentages for the BMM letters and nonauto mach mixed

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**Response to MMA/USPS-T21-75 continued.**

AADC/AADC cost models are both 82.14%

B. In my cost models, I do not make this assumption. I assume that both mail types exhibit similar mail characteristics and are processed through the same operations. The fact that DPS percentages are similar is a byproduct of the assumptions listed above.

C. Please refer to my response to B.

(D-E). DPS percentages are not inputs to the cost models. My understanding is that delivery unit cost estimate for presort letters is de-averaged by rate category using the cumulative DPS percentage for those rate categories, which were calculated in the cost models.

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**MMA/USPS-T21-76**

Please refer to your response to Interrogatory MMA/USPS-T21-62 where you indicate that you do not know why certain cost pools are consistently and reliably higher for single piece metered letters than for workshared letters.

- A. In evaluating these cost pools, why has the Postal Service not seriously considered the possibility that worksharing does, in fact, favorably affect the costs associated with the functions reflected in these cost pools?
- B. Why has the Postal Service not further studied these cost pools to find out why the costs incurred for workshared letters are lower?
- C. In the absence of such a study, why does the Postal Service simply assume that the factors that cause the costs for workshared letters to be lower than the costs for single piece metered letters are not related to worksharing?

**Response:**

(A-C) The cost pool classifications have historically been based on the operations mapped to those cost pools. The operations that were determined to be directly affected by mailers' presorting and prebarcoding activities have been classified as worksharing related. The distribution keys or other factors may also affect the specific magnitude of the cost pools. This might be part of the reason why the magnitude of some BMM letters cost pools is generally higher.

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**MMA/USPS-T21-77**

Please refer to your responses to Interrogatories MMA/USPS-T21-63 and MMA/USPS-T21-64. You seem to agree that BMM should be less machinable than Mixed AADC letters, stating "I would expect MAADC mail to be more machinable than BMM mail." However, you also indicate that "the model is not designed to compare modeled costs of BMM and MAADC and therefore such a comparison should not be made."

- A. Please confirm that your models indicate that, prior to application of your CRA Proportional Factors, Mixed AADC letters cost more to process and have a higher DPS % than BMM letters. If you cannot confirm, please explain.
- B. Please explain why the model is not designed to compare the modeled cost between your benchmark (BMM) and one of the workshared rate categories (MAADC)?
- C. Please explain what your modeled costs are designed to compare.

**Response:**

- A. Confirm.
- B. The BMM letters cost model in USPS-LR-K-48 is only included as a means to estimate BMM letter CRA proportional adjustment factor used by witness Hatcher and has no bearing on the worksharing related savings estimates measured for First-Class Mail presort.
- C. The models are generally used to deaverage the CRA mail processing unit cost estimates for presort letters and cards rate categories.

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**MMA/USPS-T21-78**

Please refer to your response to Interrogatory MMA/USPS-T21-66. In response to part D you confirm that, historically, the modeled unit costs for rate categories that require RBCS processing, i.e., BMM and non-automation letters, have always been low compared to the actual CRA costs. In part C, you are unwilling to concede a strong possibility that the models overestimate the efficiency of the RBCS operation and thereby understate RBCS costs. In part E, you were asked why the first, historical fact (Part D) does not lead to the conclusion that there is a strong possibility that your models overestimate the efficiency of the RBCS operation and thereby understate RBCS costs, but you did not answer the question. Please explain why the overwhelming evidence – that the models consistently and reliably significantly understate the costs for categories of mail that require RBCS processing – does not lead you to conclude anything at all about whether the models understate or overstate the costs for the RBCS operation.

**Response:**

It is difficult to form an opinion on this topic given that BMM letters CRA cost proxy includes the costs for all metered letters, not just BMM. Therefore, one would expect the modeled costs to understate the costs when compared to a CRA cost proxy that is likely overstated.

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**MMA/USPS-T21-79**

Please refer to your response to Interrogatory MMA/USPS-T21-67 where you compare the DPS % outputs from your BMM and MAADC letter models and conclude they are “close” and based on “the best input data possible.”

- A. Please confirm that, when you apply your CRA Proportional Factors to each of these categories, the BMM model-derived unit cost was raised by 45.4% and the MAADC model-derived unit cost was lowered by 29.3%. If you cannot confirm, please explain.
- B. Please confirm that, as the degree of machinability increases for a rate category, the unit cost will decrease and the DPS % will increase. If you cannot confirm, please explain.
- C. When raising your model-derived unit cost as a result of applying the CRA Proportional Factor, as was the case for BMM letters, do you think it would have been appropriate to lower the BMM model-derived DPS % by an equivalent amount, if this could be done? If yes, why did you not caution USPS witness Kelley that the DPS % could be overstated when you provided the BMM DPS % to him? If not, why not?
- D. When lowering your model-derived unit cost as a result of applying the CRA Proportional Factor, as was the case for MAADC letters, do you think it would have been appropriate to increase the MAADC model-derived DPS % by an equivalent amount, if this could be done? If yes, why did you not caution USPS witness Kelley that the DPS % could be understated when you provided the MAADC DPS % to him? If not, why not?

**Response:**

A. Confirmed. One would expect the BMM letters cost model to understate a cost proxy that includes all metered letters both machinable and nonmachinable, BMM letters are entered in full trays and bundles. Based on the response to POIR No. 1 concerning the auto / nonauto issue , one would expect the CRA adjustment factor to move closer to 1.0 when the auto / nonauto costs are ultimately combined in the analysis and only one CRA presort letters mail processing unit cost estimate is used.

B. Confirmed, if one holds all other inputs constant.

(C-D). No. The DPS percentages are not entered as an input. Furthermore, there is no empirical basis for making an adjustment Third, and most

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**Response to MMA/USPS-T-21-79 continued.**

importantly, the CRA adjustment factors are not tied to DPS percentages in a directly proportional relationship, such that when one goes up the other should go down.

## **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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June 24, 2005