

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION,
REDIRECTED FROM WITNESS ABDIRAHMAN
(MMA/USPS-T22-5 C-D, 6 C) (July 6, 2006)

The United States Postal Service hereby files the responses of Witness Loetscher to the above-listed interrogatory parts, filed on June 19, 2006 and due on July 3, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 6, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

MMA/USPS-T22-5

Please refer to R2006-1 Library Reference USPS-LR-L-48, page 40 and R2006-1 Library Reference USPS-LR-K-48, page 52, where you list the Presorted letter volumes by category.

A. Can you confirm the following volumes and percentages by specific rate category for BY 2005 in this case? If not please provide corrections.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	10,182	1%
Nonautomation Nonmachinable ADC	4,819	0%
Nonautomation Nonmachinable 3-Digit	6,178	0%
Nonautomation Nonmachinable 5-Digit	1,250	0%
Total Nonautomation Nonmachinable	22,429	1%
Nonautomation Machinable Mixed AADC	716,554	41%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	99%
Total Nonautomation	1,739,317	100%
Automation Mixed AADC	2,875,272	6%
Automation AADC	2,500,365	5%
Automation 3-Digit	22,908,988	49%
Automation 5-Digit	17,449,671	38%
Automation Carrier Route	673,921	1%
Total Automation	46,408,216	100%
Grand Total	48,147,533	

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Response to MMA/USPS-T22-5 (continued):

B. Can you confirm the following volumes and percentages by specific rate category for BY 2004 in R2005-1? If not please provide corrections.

First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	79,534	3%
Nonautomation Nonmachinable ADC	78,556	3%
Nonautomation Nonmachinable 3-Digit	391,483	14%
Nonautomation Nonmachinable 5-Digit	308,225	11%
Total Nonautomation Nonmachinable	857,797	31%
Nonautomation Machinable Mixed AADC	271,548	10%
Nonautomation Machinable AADC	156,519	6%
Nonautomation Machinable 3-Digit	524,895	19%
Nonautomation Machinable 5-Digit	138,608	5%
Total Nonautomation Machinable	1,091,570	39%
Total Nonautomation	2,807,164	100%
Automation Mixed AADC	2,770,420	6%
Automation AADC	2,522,102	6%
Automation 3-Digit	22,585,608	51%
Automation 5-Digit	15,963,541	36%
Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

C. Please explain what phenomena caused the percentage of Nonautomation machinable letters to increase from 39% of total Nonautomation mail in the 2004 Base Year in R2005-1 to 99% of total Nonautomation mail in the 2005 Base Year in R2006-1.

D. Please explain what phenomena caused the volume of Nonautomation nonmachinable letters to decrease by 97.4%, from 858,797,000 to 22,429,000, between the 2004 Base Year in R2005-1 and the 2005 Base Year in R2006-1.

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Response to MMA/USPS-T22-5 (continued):

E. Please explain in detail how the significant change in the makeup of Nonautomation letters, *i.e.*, a conversion of 835 million letters from nonmachinable to machinable (857,979,000 – 22,429,000), has affected the CRA costs to process this mail between R2005-1 BY 2004 and R2006-1 BY 2005. In other words, should this increase costs, decrease costs or have no impact on costs, all other factors being equal?

Response:

C.-,D. The decrease in the estimated volume of nonmachinable Nonautomation presort First-Class Mail reflects a change in the composition of Nonautomation Presort First-Class Mail over a ten year period 1996 – 2005. The Docket No. R2005-1 estimate of the proportion of Nonautomation nonmachinable letters was derived using estimates from LR-H-185 in R97-1 to distribute First-Class Mail Nonautomation letters to presort level and machinability. The R2006-1 estimate is based on the results of the updated First-Class Mail Characteristics Study (USPS-LR-L-32). Over this ten year period the numerous advances in addressing and mail preparation technologies and pricing incentives such as automation discounts and the nonmachinable surcharge have combined to reduce the proportion of First-Class Presort that does not receive automation discounts from 30 percent in 1996 (USPS-LR-H-145) to 4.6 percent in 2005. It is likely that similar changes to the machinability characteristics have occurred as well.

During this period mailers have been able to make minor changes to mailpiece design to allow them to qualify for automation discounts. For example, it is my understanding that LR-H-85 measured the reasons that each sample mail-piece failed upgradability standards. In the LR-H-85 study 40 percent of pieces failed upgradability standards due to OCR readability issues such as address placement in

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Response to MMA/USPS-T22-5 (continued):

the OCR read area or markings in the barcode clear zone. For these pieces small changes in the mailpiece design enable pieces to become upgradable.

Changes in the rate schedule have also improved the Postal Service's ability to measure the quantity of nonmachinable pieces. In Docket R2001-1 the surcharge for nonmachinable pieces was implemented. The surcharge, in addition to providing an incentive to mailers to produce machinable pieces, allows the Postal Service to measure the volume of nonmachinable pieces through the revenue collected from these pieces. The USPS-LR-L-32 study controls First-Class Mail Presort Nonautomation letters to the estimated volume from USPS-LR-L-87 of First-Class Mail Presort letters subject to the nonmachinable surcharge. The use of USPS-LR-H-185 in R2005-1 overstated the volume of mail subject to the nonmachinable surcharge compared to the revenue collected from the nonmachinable surcharge. In FY04 the nonmachinable surcharge was collected on 22,087,624 First-Class Presort letters (USPS-LR-K-87).

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MMA/USPS-T22-6

Please refer to the summary of First-Class letter presorted unit processing costs as shown on page 1 of Library Reference USPS-LR-L-48. As shown there, the unit cost for Nonautomation letters (6.302 cents) is lower than the unit cost for automation mixed AADC letters (6.470 cents). Please also refer to R2005-1 Library Reference USPS-LR-K-48.

- A. Please confirm the 2005 Base Year volumes and percentages from Library Reference USPS-LR-L-48, page 40 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	10,182	45%
Nonautomation Nonmachinable ADC	4,819	21%
Nonautomation Nonmachinable 3-Digit	6,178	28%
Nonautomation Nonmachinable 5-Digit	1,250	6%
Total Nonautomation Nonmachinable	22,429	100%
Nonautomation Machinable Mixed AADC	716,554	42%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	100%
Total Nonautomation	1,739,317	
Automation Mixed AADC	2,875,272	6%
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Automation 3-Digit	22,908,988	49%
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Response to MMA/USPS-T22-6 (continued)

B. Please confirm the 2004 Base Year volumes and percentages from R2005-1 Library Reference USPS-LR-K-48, page 52 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	79,534	9%
Nonautomation Nonmachinable ADC	78,556	9%
Nonautomation Nonmachinable 3-Digit	391,483	46%
Nonautomation Nonmachinable 5-Digit	308,225	36%
Total Nonautomation Nonmachinable	857,797	100%
Nonautomation Machinable Mixed AADC	271,548	25%
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Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

C. Please explain what phenomenon caused the volume of Nonautomation nonmachinable letters presorted to 3- and 5-digits to decrease from 82% in BY 2004 to just 34% in BY 2005.

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Response to MMA/USPS-T22-6 (continued):

- D. Please explain why the cost to process Nonautomation letters that bear no prebarcode is less than the cost to process MAADC automation letters that are prebarcoded.

RESPONSE:

- C. The change in the proportion of Nonautomation nonmachinable letters presorted to 3- and 5-digits reflects a change in the distribution of this mail over a 10 year period from 1996 to 2005; see my response to MMA/USPS-T22-5 C-D. In this period a substantial proportion of the nonmachinable Nonautomation category has migrated to automation mail categories due to rate incentives and advances in mail preparation technologies. It is my opinion that the remaining nonmachinable Nonautomation mail comes in less dense mailings that, for whatever reason, cannot be upgraded to be machinable. The less density per mailing would typically mean that there would be fewer pieces that qualify for the 3 or 5-digit sortation and relatively more pieces would, therefore, pay the ADC or Mixed ADC rate.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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