

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 TO INTERROGATORIES OF
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN
(MMA/USPS-T22-31-35)

The United States Postal Service hereby provides its responses to the above referenced interrogatories of Major Mailers Association filed on June 30, 2006, and redirected from witness Abdirahman.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 14, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

MMA/USPS-T22-31

Please refer to Library Reference USPS-LR-L-141, which was filed in response to POIR No. 5. Page 3 provides the model-derived unit mail processing cost for bulk metered mail (BMM).

- A. Please confirm that, for column 5, "Premium Pay Adjust", the Postal Service used the premium pay adjustment factor of 1.015 as shown on page 48 for presorted letters and applied this factor in deriving BMM unit costs? If you cannot confirm, please explain.
- B. If you confirm part (A), please explain why the Postal Service used the premium pay adjustment factor for presorted letters (1.015) rather than the premium pay adjustment factor for single piece letters (1.012).

Response:

- A. Confirmed.
- B. Premium pay adjustment factor for single piece letters should have been used.

An errata to USPS-LR-L-141 will be filed.

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MMA/USPS-T22-32

Please refer to Library Reference USPS-LR-L-141, which was filed in response to POIR No. 5. Pages 2 and 3 provide the BMM “proportional” mail processing unit costs derived from the CRA (8.108 cents) and mail-flow model (5.193 cents), respectively.

- A. Please confirm that, compared to the CRA cost for processing BMM, the model-derived unit cost is low by 2.915 cents or 36%. If you cannot confirm, please explain.
- B. Please confirm that the derived CRA Proportional Adjustment Factor (1.561) derived on page 3 indicates that the CRA-derived unit cost is 56% higher than the model-derived unit cost. If you cannot confirm, please explain.
- C. Please confirm that, in R2005-1, the comparable CRA Proportional Adjustment Factors using the Postal Service’s attributable cost methodology and the Commission’s attributable cost methodology were 1.454 and 1.488, respectively. (See R2005-1 Library References USPS-LR-K-48 and USPS-LR-K-110) If you cannot confirm, please explain.
- D. Please confirm that, in this case, there have been no modifications to the mail flow models that would tend to increase model-derived costs, particularly as they relate to BMM letters, to enable the results to be closer to the CRA-derived costs. If you cannot confirm, please explain.
- E. Please confirm that the cost understatement resulting from the mail flow model for BMM is even higher in R2006-1 (by 56%) than it was in R2005-1 (45% or 49%). If you cannot confirm, please explain.

Response:

- A. Confirmed.
- B. Confirmed.
- C. Confirmed.
- D. Partially confirmed. The inputs to the mail flow models were updated but no other changes were made to the mail flow models. One factor that affects how close the modeled cost for BMM is to the CRA Metered Mail cost is the mail mix. The CRA metered letter costs, which were used as a proxy for BMM, include costs for BMM letters entered in full trays, metered bundles, and perhaps even individual pieces of metered mail. This is why one would not

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expect to see a CRA proportional adjustment factor of 1.0. We do not know the mix of these mail types for a given year or how that mix changes from year to year. As a result, we cannot evaluate whether a shift in mail mix has affected changes in the proportional CRA adjustment factor from one case to the next.

- E. Partially confirmed that CRA adjustment factor for BMM in Docket No. R2005-1 under PRC methodology was 1.4778 cents and CRA adjustment factor for BMM under PRC methodology presented in the revised USPS-LR-141 in Docket No. R2006-1 is 1.564 cents. We cannot confirm that the models differ from actual BMM costs because we do not know the actual BMM costs.

Please see the response to part D.

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MMA/USPS-T22-33

Please refer to Library Reference USPS-LR-L-141, which was filed in response to POIR No. 5. Pages 2 and 3 provide the BMM “proportional” mail processing unit costs derived from the CRA (8.108 cents) and mail-flow model (5.193 cents), respectively.

- A. Please confirm that BMM is not prebarcoded and, unlike Automation letters, must be processed through the remote bar code system (RBCS). If you cannot confirm, please explain.
- B. Please confirm that the BMM model results provided in response to POIR No. 5 provide the only indication in R2006-1 as to how well the mail flow models represent actual costs for a letter category that must be processed within the RBCS. If you cannot confirm, please explain.

Response:

- A. Confirmed.
- B. Not confirmed. Please see USPS-LR-L-141, page 41, USPS-LR-48, page 32 and USPS-LR-110, page 32 for the processing of Single Piece nonmachinable letter which shows that pieces are processed on the RBCS system.

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MMA/USPS-T22-34

Please refer to Library Reference USPS-LR-L-141, which was filed in response to POIR No. 5. Page 3 provides the model-derived DPS % (82.65%) for BMM.

- A. If the BMM model-derived unit cost is 2.915 cents lower than the CRA-derived unit cost, is it reasonable to conclude that the model overstates the number of letters can be processed by automation and understates the number of letters that must be processed manually? If no, please provide the specific reason why this would not be true.
- B. If the models do, in fact, understate the number of letters that can be processed by automation, would the derived DPS % of 82.65% be too high? If your answer is anything other than an unqualified yes, please explain.

Response:

- A. No, it is not reasonable to conclude that the model understates the number of BMM pieces rejected and processed manually. The single piece metered letters costs by shape were used as a proxy for BMM letters, which cannot be quantified. The proxy, however, does not reflect "actual" BMM letters cost. Instead, the methodology used in R2001-1, R2005-1, and USPS-LR-L-141 , used the CRA cost for single piece metered letters as a proxy for BMM. It is possible that the difference in the model derived costs and the CRA costs are attributable, in part, to the mail mix of single piece metered mail. See response to MMA/USPS-T-22-32(D).
- B. No. The DPS percentages would be higher if more BMM letters were to be processed on automation.

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MMA/USPS-T22-35

Please refer to Library Reference USPS-LR-L-141, which was filed in response to POIR No. 5. Please refer to pages 2 and 3 for BMM costs and pages 21 and 22 for Nonautomation machineable mixed AADC/AADC (NAMMA) letter costs.

- A. Please confirm that the mail flow model and resulting unit cost for NAMMA letters is identical to that provided for BMM letters. If you cannot confirm, please explain.
- B. If the BMM model-derived unit cost is 2.915 cents lower than the CRA-derived unit cost, is it reasonable to conclude the model-derived unit cost for NAMMA letters is similarly understated? Please explain your answer.
- C. Please confirm that the only differences between the mail flow model for NAMMA letters, shown on pages 14 and 15 of Library Reference USPS-LR-L-48 and the mail flow model shown on pages 21 and 22 of Library Reference USPS-LR-L-141 for NAMMA letters are that there are different productivities and other factors associated with the Postal Service's attributable cost methodology compared to the Commission's methodology. If you cannot confirm, please explain.
- D. Is it likely that the model-derived unit cost for NAMMA letters provided on page 14 of USPS-LR-L-48 is as understated as the BMM unit cost derived on page 3 of Library Reference USPS-LR-L-141? If not, please explain.

Response:

- A. Confirmed.
- B. Partially confirmed. It cannot be confirmed that actual NAMMA are over or understated since actual costs are not know. However, it can be confirmed that NAMMA and BMM exhibit similar physical characteristics and would be expected to have similar cost characteristics. Please refer to the response to POIR 1 (a) in Docket No. R2005-1.
- C. Confirmed.
- D. No. The cost models could overstate, understate cost or accurately state costs, given that they are used as an estimation tool. Please see responses to parts B and D.

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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