

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 TAUFIQUE
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS
(ABA-NAPM/USPS-T32-3 THROUGH 8 AND 10)

The United States Postal Service hereby files the responses of witness
Altaf H. Taufique to the following interrogatories of American Bankers
Association and National Association of Presort Mailers:
ABA-NAPM/USPS-T32-3 through 8 and 10, filed on July 11, 2006.

Each interrogatory is stated verbatim and followed by the response.
Interrogatory ABA-NAPM/USPS-T32-9 has been redirected to the Postal Service
for an institutional response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ABA-NAPM/USPS-T32-3 Please refer to pages 17-20 of your testimony (USPS-T-32), where you discuss the Postal Service's proposal for shape-based rates for First-Class Mail. Please confirm the following statements. Explain fully any failure to confirm.

(a) A 3 digit FCLM financial statement weighing between 1 and 2 ounces would cost \$0.486 under your proposed rates, compared to \$0.545 currently.

(b) A 3 digit FCLM statement weighing between 2 and 3 ounces would cost \$0.641 under your proposed rates, compared to \$0.782 currently.

RESPONSE

- (a) I am assuming that the FCLM financial statement referred to in your question is 3-Digit Automation Letter piece which currently pays \$0.308 for the first ounce and \$0.237 for the additional ounce. Confirmed that this piece currently pays \$0.545. The proposed rate for such a piece is \$0.331 for the first-ounce and the proposed additional ounce rate is \$0.155. Confirmed that, under the proposed rate, such a piece would pay \$0.486.
- (b) Confirmed that, under the proposed rates, such a piece would pay \$0.641, assuming that the mail piece referred to in your question is a 3-Digit Automation letter. Also, under the current rates, a 3-Digit automation letter piece weighing between 2 and three ounce would pay \$0.782.

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ABA-NAPM/USPS-T32-4 Please confirm the following statements. Explain fully any failure to confirm.

- a. The Household Diary Study indicates that the volume of statements mail declined by 4.1% between 2002 and 2005.
- b. According to the Household Diary Study, about 6.6 billion pieces of First-Class letter mail in 2005 were statements mail.
- c. Rates for statements mail have a relatively high implicit coverage ratio.
- d. A further decline of statements mail volume could cost the Postal Service hundreds of millions of dollars in contribution annually.
- e. The greater recognition of shape proposed by the Postal Service, all other things being equal, will reduce the average rate per piece paid by statements mail weighing more than once ounce.
- f. Adoption of shape based rates are likely to slow, to some degree, the erosion of statements mail volume carried by the Postal Service.
- g. Failure to adopt shape based rates would likely accelerate the, loss of statements volume.

RESPONSE

- a. Confirmed. The statement volume included in the Household Diary Study is provided in the table below. However, the Household Diary Study does not include business to business statement volume.

Statements (Millions of pieces)

2002	2003	2004	2005	2002-2005 Pct Chg
6,874	6,429	6,452	6,594	-4.1%

- b. Confirmed with regard to statements sent to households.
- c. Confirmed that the rates for automation presorted letters likely have higher implicit cost coverages than for the subclass overall, although I do not know the costs for statement mail, per se. Generally, the Postal Service does not use cost coverages below the subclass level for rate design purposes. Please see my revised response to PSA/USPS-T32-4.

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RESPONSE to ABA&NAPM/USPS-T32-4 (continued):

- d. All else equal, a decline in the Automation Letters volume would reduce contribution to institutional costs.
- e. The proposed additional ounce rates are lower than the current rates for all categories in the Letters and Sealed Parcels subclass, and this is proposed in conjunction with the shape-based pricing changes. It is true that the proposed additional ounce rates lead to proposed rate reductions for all letters weighing more than an ounce. Specific circumstances of a particular omnibus filing may dictate the degree of such recognition on any particular category of mail.
- f. There are number of reasons for the so-called erosion of statements volume. Price is one of the factors affecting this volume. Given the absolute value of the price elasticity, my understanding is that this impact may be small. Please see witness Thress' testimony on page70, lines 16 and 17, and Table 16 on page 73.
- g. As stated in my response to subpart f, there are a number of factors affecting the volume for statements. To the extent price has any effect, a lower price such as those enabled by my proposal would have a positive volume effect. I am aware of no basis for assuming that the adoption of shape based rates could materially accelerate or slow down the decline of statements volume.

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ABA-NAPM/USPS-T32-5 In this case you propose to base First Class rates on shape rather than weight, and as a result of this change you propose to reduce the extra ounce rate. Please confirm that your approach is supported by the fact that the Postal Service uses the same productivities in its cost models for letters weighing more than one ounce as it does for letters weighing one ounce or less.

RESPONSE

Not confirmed. The productivities used in the workshare-related cost models are unrelated to my proposal for shape-based rates. It is my understanding that the cost models are intended to determine the costs avoided due to specific mailer activities and are unrelated to weight. Please see my testimony USPS-T-32, pages 17 through 20, for a discussion of the rationale for shape based rates. The proposed rate design approach does not require any differentiation by weight within these studies.

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ABA-NAPM/USPS-T32-6. Please confirm that USPS-LR-L-139 supports the following statements. Explain fully any failure to confirm.

- a. Pieces of FCLM reported as weighing more than 4.0 ounces represent only 0.07% of the total number of FCLM pieces.
- b. Pieces of FCLM reported as weighing more than 4.0 ounces represent only 0.9% of the total weight of FCLM.
- c. Pieces of FCLM reported as weighing more than 4.0 ounces account for only 0.32% of the total volume variable costs of FCLM.

RESPONSE

- a. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.
- b. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.
- c. Confirmed, if you are referring to First-Class Mail single-piece letters data provided in the worksheet 'SP Letters' in USPS-LR-L-139.

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ABA-NAPM/USPS-T32-7

- a. Please confirm that the numbers in the attached Table One are correct. If you fail to confirm fully, please produce a corrected table, along with supporting analysis sufficient to replicate your results.
- b. Please confirm that under your proposed shape based rate structure—using all costs for First-Class parcels and not just mail processing and delivery costs—the unadjusted (for fees) cost coverage is 112% for First-Class parcels, while the cost coverage is 194% for First-Class letters, and 170% for First-Class flats.
- c. Please confirm that under your proposed shape based rate structure—using all costs for First Class parcels and not just mail processing and delivery costs—the adjusted (for fees) cost coverage for parcels is 114%, while the cost coverage for First Class letters is 197% and for flats 173%.
- d. In PSA/USPS-T32-1.e. you were asked to confirm that the revenue difference between First Class Parcels and Letters under your proposed shape based rates was somewhat greater than the difference in costs, namely \$1.45 versus \$1.17. Please confirm that this calculation was limited to mail processing and delivery costs, and did not consider total unit cost differences.
- e. Please confirm that the total cost differences between a First Class Parcel and a First Class letter are \$1.46, one cent *more* than the total unadjusted revenue differences under the proposed shape-based rates.
- f. Please confirm that the total cost differences between a First Class Parcel and a First Class letter are \$1.46, one cent less than the total adjusted revenue differences under the proposed shape based rates.

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ABA&NAPM/USPS-T32-7 (continued):

Table One									
Shape	Current Rates		Proposed Rates		Total Unit Cost	Unadjusted Unit TYAR Postage Revenue	Unadjusted Total Cost Coverage	Adjusted Unit TYAR Postage Revenue	Adjusted Total Cost Coverage
	1st Oz	Add'l Oz	1st Oz	Add'l Oz					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)/(5)	(8)	(9)=(8)/(5)
Letters	\$0.390	\$0.240	\$0.420	\$0.200	\$0.222	\$0.43	194.2%	\$0.44	197.0%
Flats	\$0.520	\$0.240	\$0.620	\$0.200	\$0.691	\$1.18	170.2%	\$1.19	172.6%
Parcels	\$0.520	\$0.240	\$1.000	\$0.200	\$1.682	\$1.88	112.0%	\$1.91	113.6%
Shape					Cost Difference Letter as Base	Unadjusted Revenue Difference Letter as Base	Unadjusted Total Cost Coverage	Adjusted Revenue Difference Letter as Base	Adjusted Total Cost Coverage
					(10)	(11)	(12)=(11)/(10)	(13)	(14)=(13)/(10)
Letters					-	-	-	-	-
Flats					\$0.469	\$0.75	158.8%	\$0.76	161.1%
Parcels					\$1.460	\$1.45	99.5%	\$1.47	100.9%

Sources: Weight increment unit costs from LR-L-139.
Unit TYAR postage revenue based on USPS-T-32, USPS-LR-L-129, WP-FCM-11a.

RESPONSE

- a. I can confirm most of your calculations that are based on the estimates of unadjusted revenue (not including fees). I am not sure how the fee revenues were allocated to the various shapes. I have used the volume distribution, but I have not been able to replicate your numbers exactly. In general, I disagree with the premise that Single-Piece fee revenue can be allocated to shapes with the data available to us. Also, the Postal Service does not calculate cost coverages below the subclass level for rate design purposes. The implicit coverages that I have calculated are for the purpose of replicating your table in order to provide a response to your

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question and are very similar to your calculations. Please see the attached spreadsheet for the calculations.

- b. Confirmed. The implicit cost coverages for single-piece letter shaped pieces, using unadjusted revenue per-piece and the LR-L-139 cost by shape data for single-pieces, are: single-piece letter-shaped pieces 194 percent, single-piece flat-shaped pieces 170 percent and single-piece parcel-shaped pieces 112 percent.
- c. Not confirmed. Please see my response to subpart a, above. Using revenue per-piece including fee revenue (allocated using volume distribution by shape) and the LR-L-139 cost by shape data, the implicit cost coverages are 197 percent for single-piece letter shaped pieces, 171 percent for single-piece flat-shaped pieces, and 112 percent for single-piece parcel-shaped pieces.
- d. Confirmed.
- e. Confirmed. Based on the replication of your calculations in Table One, I can confirm that the cost difference between a FCM SP parcel-shaped piece and a FCM SP Letter shaped piece is \$1.46 (using LR-L-139 data) and the per-unit revenue is \$1.45 using the TYAR billing determinants. This makes the cost difference 1 cent larger than the per-unit revenue difference.
- f. Not confirmed. Please see the response to subpart a, above.

Attachment ABA-NAPM/USPS-T32-7(a)

Shape	Current Rates		Proposed Rates		(5)	(6)	(7)=(6)/(5)	(8)	(9)
	1st Oz (1)	Addl. Oz (2)	1st Oz (3)	Addl. Oz (4)					
Letters	\$ 0.390	\$ 0.240	\$ 0.420	\$ 0.200	\$ 0.222	\$ 0.431	194.2%	0.437192	197%
Flats	\$ 0.520	\$ 0.240	\$ 0.620	\$ 0.200	\$ 0.691	\$ 1.176	170.3%	1.181772	171%
Parcels	\$ 0.520	\$ 0.240	\$ 1.000	\$ 0.200	\$ 1.682	\$ 1.884	112.0%	1.889262	112%

Shape	Cost Difference	Unadjusted	Unadj. Tot.	Adjusted Rev	Adjusted
	Letters as Base (10)	Rev. Diff. (11)	Cost Diff. Coverage (12)=(11)/(10)	Diff. Letter as a base (13)	Tot. Cost Coverage (14)=(13)/(10)
Letters					
Flats	0.468	0.74	159.0%	0.745	159%
Parcels	1.460	1.45	99.5%	1.452	99%

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ABA-NAPM/USPS-T32-8 In his response to PSA/USPS-T13-1.c., USPS witness Smith states that the large difference in Test Year unit mail processing costs between presort parcels and single piece parcels (\$3.0381 versus \$1.0249) “appears to be anomalous and I do not know why it is so large.” Please confirm the following statements. Please explain fully any failure to confirm without qualification.

(a) Without shape based rates, the \$3.0381 number would be built into extra ounce costs for presort letters.

(b) Without shape based rates, the inclusion of the \$3.0381 value in the extra ounce costs of presort letters would introduce an upward bias into the estimated costs of such letters.

RESPONSE

- (a) Not Confirmed. There is no specific consideration of “the \$3.0381 number” in the rate design, however, in general, the added costs of parcels have traditionally be ostensibly “built into” the additional ounce rate. With shape-based rates, as proposed, some of this added cost due to shape is “built into” the base rates for the shape itself, thereby lessening the need for the additional ounce rate to shoulder this added cost which affects all pieces in the presort category, not just letters.
- (b) Without regard to the specific \$3.0381 figure, the additional costs caused by parcel-shaped pieces would be recovered to a greater extent (than that which is proposed) in the additional ounce rate, if not for the proposed shape-based pricing. A higher additional ounce rate would affect all pieces, not just letters.
- (c) Not confirmed. All else equal, it would be an upward bias for all rate cells in the presort category.

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ABA-NAPM/USPS-T32-10 Please refer to the table “AUTOMATION LETTERS USPS Version” provided in your response to ABA-NAPM/USPS-T22-2(c). The table indicates that your proposed rates would produce the incremental passthroughs of 84.6% for AADC, 80% for 3-digit and 118.8% for 5-digit.

(a) Please confirm that incremental passthroughs of 100% would result for each of the above three automation rate categories, under the same costing methodology, from the following rates:

AADC 33.3 cents

3 digit 32.8 cents

5-digit 31.2 cents

Please explain fully any failure to confirm.

(b) Please confirm that the rates identified in part (a) differ from the rates proposed by the USPS by the following amounts:

AADC -0.2 cents

3-digit -0.3 cents

5-digit no difference

Please explain fully any failure to confirm.

RESPONSE

(a) I can confirm the arithmetic for this change in passthrough in isolation of any other changes. However, the cost savings that are used in your example, include unit delivery cost (in addition to mail processing cost), which were not included in the Postal Service’s proposal. Also, please see my response to Presiding Officer’s Information Request (POIR) Number 5, Question 2c. There, I explain the reasons for not including the unit delivery cost to calculate the savings that become the basis of presort discounts for automation letters.

(b) I can confirm the arithmetic. Please see my response to subpart (a) above.