

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE TO
PITNEY BOWES INC. WITNESS BUC
(USPS/PB-T2-5-25)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the above-referenced interrogatories to Pitney Bowes, Inc. witness Lawrence Buc (USPS-T-2).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/PB-T2-5 Please refer to your testimony at page 2 and page 4 where you discuss the Efficient Component Pricing Rule (ECPR).

- a. Does ECPR provide any guidance as to which characteristics of mail should be distinguished for pricing purposes? Please explain.
- b. Does ECPR provide any guidance regarding whether there is a distinction between cost avoidance and cost difference? Please explain.
- c. Please confirm that the de-linking proposal permits the consideration of cost differences between First-Class Mail single-piece and First-Class Mail presort letters, even when such differences were not caused by presorting, per se. If you do not confirm, please explain.
- d. Which of the rate-setting factors of the Postal Reorganization Act refer to efficiency?
- e. For each rate-setting factor of the Postal Reorganization Act, Sec. 3622 (b), please indicate whether the factor supports setting of prices not necessarily consistent with efficiency goals, and explain your conclusion

USPS/PB-T2-6 Please refer to your testimony at pages 4 and 5 where you discuss ECPR and the Commission's embrace of the concept. Please confirm that setting a discount at more than the cost avoided would be an inefficient result. If you do not confirm, please explain.

USPS/PB-T2-7 Please refer to your testimony at page 13, lines 7-17 where you discuss the exclusion of the delivery cost differences associated with DPS percentages previously provided in the letter models.

- a. Please provide a methodological approach to identifying the presort level of a letter that is rejected from a piece of letter-sorting equipment.
- b. Please provide a methodological approach for identifying the presort level(s) of letters that are not contained in the DPS bundle provided to the carrier.

USPS/PB-T2-8 Please confirm that classifying cost pools as “proportional” does not, in and of itself, establish the degree to which or the way in which the costs in those cost pools vary with presort levels. If you do not confirm, please explain.

USPS/PB-T2-9 Please refer to your testimony at page 14, line 6 where you state that most of the costs in the cost pools classified as fixed “actually vary with the presort level”.

a. Please confirm that once you have re-classified the cost pools as proportional, you performed no study to determine the degree to which any of the costs in any of the re-classified cost pools actually varied with presort level. If you do not confirm, please explain and provide the analysis demonstrating the degree to which and way in which the re-classified costs vary with presort level.

b. If you do not confirm part a above, please provide the functional form of the equation used by you to determine the degree to which each cost pool varied with presort level.

USPS/PB-T2-10 Please refer to your Tables 4 and 5.

a. Please confirm that, of the 38 cost pools you examined, the ratios of the single-piece letter unit cost to the automation letter unit cost range from less than 1 to over 5. If you do not confirm, please explain.

b. Please confirm that 20 of the cost pools had a ratio of single-piece unit cost to automation letter cost of between 2 and 5. If you do not confirm, please explain.

c. Please confirm that simple examination of these ratios does not suggest that a single ratio exists for the ratio of single-piece unit costs to automation unit costs. If you do not confirm, please explain.

USPS/PB-T2-11 Please refer to your testimony at page 16, lines 11-17 and page 17, lines 1-3 where you discuss the reasons for cost differences between single-piece and automation letters.

- a. Please confirm that the proportion of single-piece letters that are forwarded or returned is lower than the proportion of presort or automation letters that are forwarded or returned. If you do not confirm, please explain.
- b. Please confirm that, as shown in the testimonies provided in support of the Negotiated Service Agreements for Capital One and other companies using First-Class Mail for advertising purposes, the costs of forwarding and returning letters are significantly more than the costs of providing mail processing service to an automation letter that is not forwarded or returned. If you do not confirm, please explain.
- c. Please confirm that, independent of the depth of presort, automation mail is more likely to be entered by large, relatively sophisticated mailers and single-piece letters is less likely to be entered by large, relatively sophisticated mailers. If you do not confirm, please explain.

USPS/PB-T2-12 Please confirm that the distribution keys you describe in your testimony at pages 19 and 20 as being used by witnesses Van-Ty Smith and Smith and Bozzo have been developed as a result of analysis. If you do not confirm, please identify how you believe those keys were developed.

USPS/PB-T2-13 Please refer to your testimony at page 21, lines 12-14 where you describe the activity of sorting letters in a manual flat sorting operation and state that these costs “like all other piece handling costs, vary with the amount of worksharing performed.”

- a. Please provide an empirical basis for this statement.
- b. Please confirm that the pieces found in manual flat sorting operations may have been damaged or for some other reason, such as a floppy leading edge, rejected from letter-sorting operations. If you do not confirm, please explain.

USPS/PB-T2-14 Please refer to your Table 6 listing the number of cost pools you consider to be anomalous.

- a. Is it your testimony that the more finely presorted a letter is, the less likely it is to wind up in an “unexpected facility”? If so, please provide the basis, empirical or

otherwise for that position. If not, then please explain how and why one would divide these anomalous cost pools by presort level.

b. Is it your testimony that the more finely presorted a letter is, the less likely it is to wind up mixed in with “unexpected shapes” or “unexpected classes”? If so, please provide the basis for that position. If not, then please explain how and why one would divide these anomalous cost pools by presort level.

USPS/PB-T2-15 Please refer to your testimony at page 23 where you discuss preparation of pallets as it relates to the presort level of the mail.

a. Please refer to lines 6-7 where you state that the “size of the mailing is generally related to the presort level of the letter trays: the larger the mailing, the greater the depth of presort.” Please confirm that the geographic dispersion of the mailing also has an effect on the depth of presort and the preparation of pallets. If you do not confirm, please explain.

b. Please explain the difference between the operational activities associated with handling a pallet with 5-digit trays of letters and a pallet with Carrier Route trays of letters.

USPS/PB-T2-16 Please see lines 14-15 of page 23 that state, “when mailers use PostalOne! the Postal Service avoids transportation and mail processing costs.”

a. Please explain how use of PostalOne! reduces transportation costs.

b. Please explain how the use of PostalOne! varies by presort level.

c. Please explain how the use of PostalOne! by varying presort level will avoid transportation cost ***by presort level.***

USPS/PB-T2-17 Please refer to lines 18-19 of page 24 of your testimony where you state that “letters in 5-digit trays on pallet separations could bypass the tray sorting costs at the origin plant.” Please provide an estimate of how often this happens, and the basis of your estimate.

USPS/PB-T2-18 Please refer to lines 5-6 of page 25 of your testimony where you state that “Originating letters in mixed AADC trays can be processed in four sort schemes and require two or three strapping and/or sleeving activities.”

- a. Please provide an estimate of how often originating letters in mixed AADC trays are processed in four sort schemes, and the source of your estimate.
- b. Please provide an estimate of how often two strapping and/or sleeving activities are required for this mail, and provide the source of your estimate.
- c. Please provide an estimate of how often three strapping and/or sleeving activities are required for this mail, and provide the source of your estimate.

USPS/PB-T2-19 Many of the examples provided in your testimony, for example on page 25, refer to the difference between mixed AADC letters and 5-digit letters.

- a. Please confirm that the cost analysis and ratesetting activities involve distinguishing among all levels of presort.
- b. Please explain how the examples provided, for example on page 25 of your testimony, would permit distinction among all of the presort levels.

USPS/PB-T2-20 Please refer to page 26, lines 22-23 of your testimony where you state that “originating letters in 5-digit trays could bypass the platform at the destinating AADC altogether.” Please provide an estimate of how often this occurs, and provide the basis for your estimate.

USPS/PB-T2-21 Please refer to page 27, line 21 of your testimony where you state, “the costs of allied labor activities vary to some degree with presort level.” To what degree do they vary? Please provide the basis for this estimate.

USPS/PB-T2-22 Please refer to page 28, line 9 of your testimony where you state that “it is intuitive that some miscellaneous and support operations are proportional to distribution operations.”

- a. Is it your testimony that the Commission should develop cost avoidance estimates based solely on intuition?

- b. Please specify the “some” miscellaneous and support operations.
- c. Please provide the proportional factor to which those support activities relate to distribution operations and provide the basis for that estimate.

USPS/PB-T2-23 Please refer to page 29 of your testimony at lines 11-14 where you quote witness Smith as saying that “it would be better to be able to model the non-modeled activities in order to accurately relate these costs to categories.” Please confirm that you have not modeled the costs for the cost pools that you propose to shift to the “proportional” classification.

USPS/PB-T2-24 Please refer to your testimony at page 33, lines 3-4 where you state that setting discounts appropriately induces “the optimal amount and mix of worksharing activity provided by mailers and third-party service providers.”

- a. Is it your testimony that the cost estimates and rates proposed in your testimony do a superior job of “inducing the optimal amount and mix of worksharing activity provided by mailers and third-party service providers”? If not, please explain why the Commission should adopt your proposals.
- b. If your response to part a is affirmative, please describe the shifts in mail mix which will result from the impact of your proposals on mailers behavior.
- c. If you did not develop estimates of the shifted mail volumes, please explain how you developed your revenue leakage and financial impact analysis.

USPS/PB-T2-25 Please refer to section IV.D of your testimony concerning cost pool classifications.

- a. Please confirm that in Docket Nos. R2000-1, R2001-1, R2005-1 and Docket No. R2006-1, the Postal Service First-Class Mail presort cards/letters cost witnesses classified cost pools as proportional if those cost pools represented tasks that were actually included in the mail flow models. If not confirmed, please explain.

b. Please confirm that the Commission relied on the same general proportional cost pool classification methodology as the Postal Service in Docket Nos, R2000-1, R2001-1, and R2005-1. If not confirmed, please explain. (Please note that even though Docket Nos. R2001-1 and R2005-1 involved settlement agreements, the Commission did place cost models on the record that were used for final adjustments.)