

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16,
QUESTIONS 3, 10 AND 11

The United States Postal Service hereby provides the responses of witness Taufique to Questions 3, 10 and 11 of Presiding Officer's Information Request No. 16, issued September 28, 2006. The questions 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

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1134
(202) 268-2998; Fax -5402
November 17, 2006

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

3. Please refer to the response to POIR 7, Question 1, USPS-LR-L-129, WP-FCM-5c (revised August 24, 2006), and the response to POIR 14, Question 2.
- a. The response to POIR 14, Question 2, states that “there would be an incentive to keep the pieces at exactly 2 ounces or lighter than 2 ounces rather than exceed 2 ounces. There are no data to make an adjustment for changes in behavior to avoid either the nonmachinable surcharge or the additional ounce postage.” Please confirm that this means that the Postal Service’s position is that First-Class business parcels weighing between 1 and 2 ounces will pay the nonmachinable surcharge. If not confirmed, please explain.
 - b. Please confirm that the percentages of business parcels that will pay the nonmachinable surcharge (currently 3 percent of parcels from single-piece and 58 percent of parcels from presort) should be corrected to reflect the percentages of parcels weighing less than 2 ounces (about 19 percent of single-piece and about 73 percent of presort). If confirmed, please provide a revised copy of USPS-LR-L-129 that includes this correction. If not confirmed, please explain.

RESPONSE

- a. Confirmed.
- b. Confirmed. This change has been made on the revised version of USPS Library Reference L-129 that is being filed today in conjunction with this POIR response. In the revised Library Reference, please see workpaper WP-FCM 5c, cells O35 and O36 for the changes. Also, a note was added at Cell O34, and a note in cell O40 was revised, to indicate that the surcharge is applicable to pieces weighing less than 2.0 ounces (rather than 1.6 ounces, which was incorrect and inadvertently left unchanged from an earlier version of the workpaper).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

10. Please refer to: (1) USPS-LR-L-129 "First-Class Mail Rate Design Spreadsheets (Taufique)," revised August 24, 2006, and (2) USPS-LR-174 "Workpapers of Witness O'Hara," filed August 25, 2006. In the sheet "Prcl Presrt Assump. Reverse" of USPS-LR-L-129, witness Taufique calculates the adjustments to 2007 AR and 2008 TYAR volume and revenue of First-Class single-piece and presort letter categories that he thinks are necessary for reversing his initial assumption that 36 percent of single-piece and 100 percent of presort parcels will shift to the new proposed First-Class business parcels category. The reversal includes adjustments to the volume and revenue of single-piece and presort letter categories, calculated initially in the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129.

It appears that witness Taufique's revenue adjustments are incorrect because in his calculations he did not use the Revenue Adjustment Factors (RAFs) from the 2005 Billing Determinants. This is inconsistent with the originally calculated revenue to which the adjustments are applied. The original revenue calculations in the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129 correctly include the application of the 2005 RAFs.

- a. Please confirm that the 2007 AR and 2008 TYAR revenue figures for First-Class single-piece and presort letter categories calculated in the sheet "Rev. FY08BR&FY08AR" and adjusted in the sheet "Prcl Presrt Assump. Reverse" of USPS-LR-L-129 are incorrect. These incorrect after-rates revenue figures have been reported in Exhibit USPS-31B and the following four spreadsheets of USPS-LR-L-174: (1) "AR 2007 Vol & Rev;" (2) "AR 2007 Rev & Cost;" (3) "AR 2008 Vol & Rev;" and (4) "AR 2008 Rev & Cost."
- b. Please formulate and articulate clearly one and only one assumption regarding the redistribution to rate categories of First-Class after-rates volumes that result from the proposed new shape-based classification. Please describe the anticipated revenue and cost implications of the assumption. Please recalculate after-rates revenue for First-Class Mail to reflect the assumption. The calculated revenue should show the effects of the assumption at the rate category level, not just as a bottom line adjustment. The format should be similar to WP-FCM-11a and 11b from the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129.
- c. Please revise USPS-LR-L-129 to show step-by-step how the First-Class 2007 AR and 2008 TYAR revenues are calculated. Please ensure that the First-Class revenue figures calculated in USPS-LR-L-129 agree with those reported in USPS-LR-L-174 and exhibits USPS-31A through USPS-31C.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

RESPONSE to Question 10

- a. Confirmed. This mistake is not being corrected. The assumption regarding parcels is being reversed to match the assumption in the original proposal, i.e., 36 percent of single-piece parcels and 100 percent of nonautomation presort parcels are assumed to move to the new presort business parcel category.
- b. The Postal Service's assumption regarding the new First-Class Mail Business/Presort parcels is the same as was originally filed in USPS-T-32, i.e., 36 percent of single-piece parcels and 100 percent of nonautomation presort parcels are assumed to move to the new presort business parcel category. The costs and revenue resulting from this change are provided in WP-FCM 12 for FY 2008 Test Year After Rates Financials for Letters & Sealed Parcels. Workpaper FCM 11a reflects this assumption.
- c. A revised USPS LR-L-129 is being filed today.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

11. Please refer to: (1) USPS-LR-L-129 "First-Class Mail Rate Design Spreadsheets (Taufique)," revised August 24, 2006, and (2) USPS-LR-L-174 "Workpapers of Witness O'Hara," filed August 25, 2006.
- a. Please confirm that the First-Class single-piece letter TYBR postage revenue figure of \$18,203,589 (000), pasted (hard coded) by witness O'Hara in the sheet "BR 2008 Vol & Rev" of USPS-LR-L-174, does not agree with the single-piece letter TYBR postage revenue figure of \$18,130,005 (000), calculated by witness Taufique in the sheet "Rev. FY08BR&FY08AR" of USPS-LR-L-129. Please confirm that the figure calculated by witness Taufique is about \$74 million lower than the figure reported by witness O'Hara. Finally, please confirm that the figure pasted by witness O'Hara in USPS-LR-L-174 is the correct postage revenue figure and the figure calculated by witness Taufique in USPS-LR-L-129 is incorrect. If any part of the question is not confirmed, please explain fully. Please show step-by-step how the pasted postage revenue figure of \$18,203,589 (000) in USPS-LR-L-174 is calculated.
- b. Please add six summary tables to USPS-LR-L-129, one for each of the following years: BY 2005, FY 2006 Before Rates, FY 2007 Before Rates, TY 2008 Before Rates, FY 2007 After Rates, and TY 2008 After Rates. Each table should show the annual volume, postage revenue, fees, and total revenue for the following First-Class mail categories: (1) single-piece letters, flats and parcels; (2) presort letters, flats and parcels; (3) automation letters, flats and parcels; (4) single-piece cards; (5) presort cards; and (6) automation cards. The tables should also show the NSA volume and revenue adjustments of First-Class workshared letters, flats and parcels. Please provide the sources of volumes and fees and show step-by-step how the postage revenue and the NSA volume and revenue adjustments are calculated for the above mail categories and years. Please ensure that the final values of volume, postage revenue, fees and NSA adjustments are not hard coded but are electronically linked to their source. Finally, please make sure that the figures of volume, postage revenue, fees, and NSA adjustments in the above six tables agree with those shown in the summary tables for the corresponding years in USPS-LR-L-174. Below is a template for the requested six tables:

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

QUESTION 11 (continued):

Docket R2006-1: First-Class Mail -Summary of Volume and Revenue
(In Thousands)

| First-Class Mail Categories | Year | | | |
|--|--------|-----------------|------|---------------|
| | Volume | Postage Revenue | Fees | Total Revenue |
| | (1) | (2) | (3) | (4)=(2)+(3) |
| (a) Single-Piece Letters, Flats and Parcels | | | | |
| (b) Presort Letters, Flats and Parcels | | | | |
| (c) Automation Letters, Flats and Parcels | | | | |
| (d)=(b)+(c) Total Presort or Workshared Pieces w/o NSA | | | | |
| (e) NSA Adjustment | | | | |
| (f)=(d)+(e) Total Presort or Workshared Pieces w/ NSA | | | | |
| (g)=(a)+(f) Total Letters, Flats and Parcels | | | | |
| (h) Single-Piece Cards | | | | |
| (i) Presort Cards | | | | |
| (j) Automation Cards | | | | |
| (k)=(i)+(j) Total Presort or Workshared Cards | | | | |
| (l)=(h)+(k) Total Cards | | | | |
| m=(g)+(l) Total First-Class Mail | | | | |

RESPONSE

a. Confirmed. The revised LR-L-129, WP-FCM 11a shows the calculation.

The number matches witness O'Hara's (USPS-T-31) estimated TYBR revenue of \$18,203,589 (000).

b. The following worksheets have been added:

WP -FCM -19(a&b) -- This is the FY 2005 Volume and Revenue by subcategories, as reported from the FY 2005 Billing Determinants.

WP-FCM-20(a&b) -- FY 2006 Test Year Before Rates for the full year.

WP-FCM-21(a&b) -- FY 2007 Test Year Before Rates for the full year. The original submission reflected a split year only.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

RESPONSE to Question 11 (continued):

WP-FCM-22 -- New tables have been added to address the POIR 16 request for a breakout of the NSA Volume and Revenue. These are the FY 2005 Base Year results.

WP-FCM-23 -- New tables have been added to address the POIR 16 request for a breakout of the NSA Volume and Revenue. These are the FY 2006 Before Rates results.

WP-FCM-24 -- New tables have been added to address the POIR 16 Request from the PRC for a breakout of the NSA Volume and Revenue. These are the FY 2007 Before Rates results.

WP-FCM-25 -- New tables have been added to address the POIR 16 request for a breakout of the NSA Volume and Revenue. These are the FY 2007 After Rates results.

WP-FCM-26 -- New tables have been added to address the POIR 16 Request for a breakout of the NSA Volume and Revenue. These are the FY 2008 Before Rates results.

WP-FCM-27 -- New tables have been added to address the POIR 16 request for a breakout of the NSA Volume and Revenue. These are the FY 2008 After Rates results.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16**

RESPONSE to Question 11 (continued):

NSA Worksheet -- A worksheet has been added to reflect the NSA
Before and After Rates Volume and Revenue.