

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 21
(November 1, 2006)

The United States Postal Service hereby provides the responses to
Presiding Officer's Information Request (POIR) No. 21, issued on October 18,
2006. The following witnesses are sponsoring the identified responses to this
POIR:

Witness Mayes	Question 2
Institutional Response	Question 1

Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

1. The response to PSA/USPS-T36-5 states,

[t]he unit cost estimates for ECR parcels in USPS-LR-L-84 were significantly higher than the unit cost estimates developed for Standard Mail Regular parcels. Given the higher average degree of preparation typical of ECR parcels, lower unit costs would normally have been expected. In light of this anomalous relationship and the extraordinarily high estimated values for the unit costs, I determined that the USPS-LR-L-84 unit cost estimates for ECR parcels were not suitable to use in developing ECR parcel pricing.

In response to Presiding Officer's Information Request No. 10, Question 2, witness Smith provided an adjustment that lowered the unit parcel cost for Standard ECR from \$24.50 to \$0.2787. This adjustment is consistent with the adjustment made for Standard Regular mail and results in a unit cost for ECR parcels that is lower than the unit cost for Standard Regular parcels. In explaining this adjustment witness Smith said,

[e]ven without knowing the source for the cost anomaly, one can support the use of this method to adjust Standard ECR parcel costs on the basis that ODIS-RPW and the cost systems are both sample based and have the same definition of shape and, therefore, both may well diverge from RPW by shape data in a parallel way.

It appears that the same logic would apply for the various density levels within Standard ECR parcels and that a similar adjustment could be applied to the unit costs in USPS-LR-L-84 and USPS-LR-L-107 (PRC version) for both Basic and High Density/Saturation parcels. Please provide revised versions of USPS-LR-L-84 and USPS-LR-L-107 that reflect the appropriate adjustment. If an appropriate adjustment cannot be made, please explain fully.

RESPONSE:

The response to POIR No. 10, Question 2 centers on the application of an adjustment factor to parcel and flat costs derived from the difference between ODIS and RPW based volume estimates. It is not possible to mimic this adjustment in USPS-LR-L-84 and USPS-LR-L-107 in the manner requested because ODIS does not provide volumes by ECR density level. It is possible to apply the adjustment uniformly across the density levels but there is no a priori

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

information that would suggest this procedure is appropriate. As an exercise, such adjusted values are given below. Their use is neither recommended nor endorsed.

Attachment 1 shows the application of the parcel cost adjustment factor derived in the response to POIR No. 10, Question 2 to the costs used in USPS-LR-L-84. The adjustment factor for parcels (0.0114) is applied to both Basic and High Density/Saturation parcel costs. Adjusted flats costs are found residually, taking the cost at each density level and subtracting the adjusted parcel cost for that level. The resulting flats adjustment ratio is 1.039 for Basic flats and 1.014 for High Density/Saturation flats. Finally, the unit dropship adjustment factors are added to obtain the final estimate.

Attachment 2 is comparable to Table 1 in USPS-LR-L-84 using the adjusted unit costs from Attachment 1. Attachment 3 derives the adjusted unit costs with respect to estimates in USPS-LR-L-107 (PRC Version). Attachment 4 is based on Table 1 in USPS-LR-L-107 but using adjusted unit costs from Attachment 3.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

Attachment 1

Dropship Adjusted Unit Costs Re-adjusted for ODIS/RPW Volume by Shape Differences

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
ECR	TY08 Volume (000s)	Costs (000s)	Base Unit Cost (Cents)	ODIS/RPW Adj Factor	Adjusted Costs (000s)	Adj Unit Cost (Cents)	Dropship Adj (Cents)	Dropship Adj Unit Cost (Cents)
Basic Flats	13,893,961	444,057	3.20	1.0390	461,364	3.321	0.815	4.136
Basic Parcels	583	17,506	3002.25	0.0114	199	34,148	0.414	34.562
Basic Nonletters	13,894,544	461,563	3.32		461,563	3.322	0.815	4.137
HD/SAT Flats	12,812,078	74,235	0.58	1.0140	75,277	0.588	1.019	1.607
HD/SAT Parcels	174	1,054	604.30	0.0114	12	6.873	2.094	8.968
HD/SAT Nonletters	12,812,253	75,289	0.59		75,289	0.588	1.019	1.607

[1] USPS-LR-L-84, LR-L-84.xls, "Results" worksheet, column [2].

[2] USPS-LR-L-84, LR-L-84.xls, "Results" worksheet, column [3].

[3] USPS-LR-L-84, LR-L-84.xls, "Results" worksheet, column [4].

[4] Parcels: USPS/POIR 10, Question 2, Attachment 4. Flats: [5] / [3].

[5] Parcels: [2] x [4]. Flats: density level nonletter subtotal costs minus parcel costs.

[6] [5] / [1].

[7] USPS-LR-L-84, LR-L-84.xls, "Results" worksheet, column [5].

[8] [6] + [7].

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

Attachment 2
TY08 Dropship-Adjusted Unit Costs Re-adjusted
for ODIS/RPW Volume by Shape Differences (cents)
Standard Mail ECR

ECR Rate Category	Unit Cost (cents)
Auto Basic Letters	4.748
Basic Letters	4.483
High Density/Saturation Letters	1.095
Basic Flats	4.136
Basic Parcels	34.562
Total Basic Nonletters	4.137
High Density/Saturation Flats	1.607
High Density/Saturation Parcels	8.968
Total High Density/Saturation Nonletters	1.607

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

Attachment 3

Dropship Adjusted Unit Costs Re-adjusted for ODIS/RPW Volume by Shape Differences

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
ECR	TY08 Volume (000s)	Costs (000s)	Base Unit Cost (Cents)	ODIS/RPW Adj Factor	Adjusted Costs (000s)	Adj Unit Cost (Cents)	Dropship Adj (Cents)	Dropship Adj Unit Cost (Cents)
Basic Flats	13,893,961	467,298	3.36	1.0312	481,862	3.468	0.890	4.358
Basic Parcels	583	14,732	2526.43	0.0114	168	28.736	0.453	29.189
Basic Nonletters	13,894,544	482,029	3.47		482,029	3.469	0.890	4.359
HD/SAT Flats	12,812,078	97,667	0.76	1.0138	99,019	0.773	1.119	1.892
HD/SAT Parcels	174	1,368	783.97	0.0114	16	8.917	2.298	11.215
HD/SAT Nonletters	12,812,253	99,034	0.77		99,034	0.773	1.119	1.892

[1] USPS-LR-L-107, LR-L-107.xls, "Results" worksheet, column [2].

[2] USPS-LR-L-107, LR-L-107.xls, "Results" worksheet, column [3].

[3] USPS-LR-L-107, LR-L-107.xls, "Results" worksheet, column [4].

[4] Parcels: USPS-LR-L-185. Flats: [5] / [3].

[5] Parcels: [2] x [4]. Flats: density level nonletter subtotal costs minus parcel costs.

[6] [5] / [1].

[7] USPS-LR-L-107, LR-L-107.xls, "Results" worksheet, column [5].

[8] [6] + [7].

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 21, QUESTION 1

Attachment 4
TY08 Dropship-Adjusted Unit Costs Re-adjusted
for ODIS/RPW Volume by Shape Differences (cents)
Standard Mail ECR

ECR Rate Category	Unit Cost (cents)
Auto Basic Letters	4.756
Basic Letters	4.088
High Density/Saturation Letters	1.214
Basic Flats	4.358
Basic Parcels	29.189
Total Basic Nonletters	4.359
High Density/Saturation Flats	1.892
High Density/Saturation Parcels	11.215
Total High Density/Saturation Nonletters	1.892

RESPONSE OF POSTAL SERVICE WITNESS MAYES
TO POIR NO. 21, QUESTION 2

2. Please refer to USPS-LR-L-88, file 'AppenF.xls,' worksheet 'App F, Table 6.' Does the avoided handling cost per-pound figure in cell F12 represent the difference between the per-pound cost of Zone 1&2 mail and DADC mail? Similarly, does the avoided handling cost per-pound figure in cell F14 represent the difference between the per-pound cost of Zone 1&2 mail and DSCF mail? Does the avoided handling cost per-pound figure in cell F16 represent the difference between the per-pound cost of Zone 1&2 mail and DDU mail? If not, please explain in detail what each of these figures represents.

RESPONSE:

The savings estimates provided in column C of Appendix F of USPS-LR-L-88 are the estimated nontransportation savings for Periodicals relative to entry at Zone 1&2, most or all of which are incurred on a per-piece basis, or per-container basis translated to a per-piece basis. Because the Pricing witnesses have traditionally incorporated the nontransportation destination entry discounts into both the piece and pound elements of their rate design, the per-piece cost savings figures from column C are translated into savings on a per-pound basis in column F using conversion factors of the average numbers of Periodicals pieces per pound (for the DDU savings, the conversion factor was for all Periodicals and for the DSCF and DADC, the conversion factor was for Outside County Periodicals). I would not say that the costs shown are the differences in the per-pound costs at each facility, but rather, that they are the per-container and per-piece costs as reflected on a per-pound basis.

A somewhat more detailed description of the development of the estimates was provided in my testimony, USPS-T-25, on page 7 beginning at line 9: The savings estimates generated in Appendix F of library reference USPS-LR-L-88 are calculated relative to Zone 1&2 Periodicals mail processing costs. In

RESPONSE OF POSTAL SERVICE WITNESS MAYES
TO POIR NO. 21, QUESTION 2

previous proceedings, the Postal Service has estimated that non-destination SCF Zone 1&2 Periodicals will incur one transfer through a non-destination transfer hub before it is dispatched to the appropriate destination SCF. The costs of crossdocking mail at a BMC are used as proxies for the costs of crossdocking mail at transfer hubs because it has been assumed that most transfer hubs are BMCs.

In previous proceedings, it has been assumed that 20 percent of non-destination SCF Zone 1&2 Periodicals incur a trip through a non-destination SCF/ADC before being dispatched to the destination SCF. It has also been assumed that 3.14 percent of non-destination SCF Zone 1&2 Periodicals go directly from the destination transfer hub to the destination DDU, bypassing intermediate handlings at the destination ADC or destination SCF. Those assumptions were utilized in the current calculations.