

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 THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T32-8 THROUGH 16)

The United States Postal Service hereby files the responses of witness
Altaf H. Taufique to the following interrogatories of the Office of Consumer
Advocate: OCA/USPS-T32-8 through 16, filed on June 8, 2006.

The interrogatories are stated verbatim and are followed by the
responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE
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OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T32-8. This interrogatory seeks information on the percentage of First-Class Mail letters, flats and parcels by shape. Please refer to your testimony at page 17, lines 16-18, which states, "In FY 2005, 94.5 percent of the pieces in the Letters subclass were actually letter-shaped pieces, while 4.8 percent were flat-shaped and one-half of one percent of the pieces were parcel-shaped." Also, please refer to USPS LR-L129, Excel file "LR-L-129.xls," worksheet tab "SP Shp&Addl Ozs."

- a. Please provide the source(s) for the percentages stated in your testimony for letter-shaped, flat-shaped, and parcel-shaped pieces in the Letters subclass.
- b. Please reconcile the percentages stated in your testimony with the percentages shown in USPS LR-L-129.

RESPONSE

a & b. Please see the attached spreadsheet for the calculations of the percentages used in my testimony. A minor change occurs in the recalculation and I get 94.6 percent for letters. All other percentage figures remain the same. The sheet "SP Shp&Addl Ozs." deals with breakdown by shapes for single-piece, while my testimony provides the breakdown for the letters subclass which in addition includes nonautomation presort letters, flats and parcels, automation and carrier route letters, and automation flats.

Letters Subclass FY 2005

Total Volume	92,441,540,435	LR-L-129, WP-FCM-1, 'TYBR Volume', Cell B9
Automation		
Auto Letters	46,408,216,195	LR-L-129, WP-FCM-1, 'TYBR Volume', Sum Cells B14,16,18,20&22
Auto Flats	733,255,800	LR-L-129, WP-FCM-1, 'TYBR Volume', Sum Cells B15,17,19,&21
Nonautomation Presort		
Letters	1,739,316,649	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K19
Flats	176,370,079	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K20
Parcels	8,393,621	LR-L-129, WP-FCM-5b, 'Shp & Addl. Ozs. Distribution', Cell K21
Single-Piece		
Letters	39,317,030,918	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D19
Flats	3,572,195,282	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D20
Parcels	486,761,891	LR-L-129, WP-FCM-5a, 'Shp & Addl. Ozs. Distribution', Cell D21
Total Letters	87,464,563,762	Sum of B7,B10 and B15
Total Flats	4,481,821,161	Sum of B8,B11 and B16
Total Parcels	495,155,512	Sum of B12 & B17
Letter Percent	94.6%	
Flat Percent	4.8%	
Parcel Percent	0.5%	

Attachment to Response to OCA/USPS-T32-8

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OCA/USPS-T32-9. This interrogatory seeks information on the rates for single-piece letter-shaped, flat-shaped, and parcel-shaped pieces. Please refer to your testimony at page 19, lines 5-8, which states, "Pieces that do not meet the letter machinability criteria (defined by length, height, width, thickness, rigidity, variation in thickness, or aspect ratio) become eligible for the next higher rate element, i.e. the first ounce rate for flat shaped pieces."

- a. Please provide the proposed rate for a nonmachinable letter-shaped piece weighing less than one ounce.
- b. Please provide the proposed rate for a nonmachinable letter-shaped piece weighing two ounces.
- c. Please provide the proposed rate for a nonmachinable flat-shaped piece weighing less than one ounce.
- d. Please provide the proposed rate for a nonmachinable flat-shaped piece weighing two ounces.
- e. Please provide the proposed rate for a nonmachinable parcel-shaped piece weighing less than one ounce.
- f. Please provide the proposed rate for a nonmachinable parcel-shaped piece weighing two ounces.

RESPONSE

- a. \$0.62
- b. \$0.82
- c. \$1.00
- d. \$1.20
- e. \$1.00
- f. \$1.20

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OCA/USPS-T32-10. This interrogatory seeks information on the total number of additional ounces for single-piece letters. Please refer to USPS LR-L-77, Excel file "First-Class Mail_BDs_2005.xls," and worksheet tab "A-1 Single Piece Letters." Also, please refer to USPS LR-L129, Excel file "LR-L-129.xls," worksheet tab "SP Shp&Addl Ozs."

- a. In USPS LR-L-77, please confirm that the total number of additional ounces for single-piece letters is 14,302,587 (14,296,965 single-piece letters + 5,622 QBRM). If you do not confirm, please explain.
- b. Please reconcile the total number of additional ounces in subpart a., above, with total number of additional ounces of 14,664,304 shown in USPS LR-L-129. Please show all calculations and provide citations to all sources used.

RESPONSE

(a) Confirmed.

(b) Normally the numbers from the Billing Determinants are the basis of rate design. The deviation in this particular docket is due to the nature of this proposal. The proposal calls for development of shape-based rates which requires producing the estimates for number of pieces and additional ounces by shapes. It is my understanding that the numbers provided in LR-L-87 (the data that was used in my rate design to derive volumes and additional ounce by shapes for single-piece and nonautomation presort) were inflated using the methodology described in LR-L-87 then controlled to the RPW estimates. While there is general consistency in the inflation methodology used in LR-L-87 and the method used in the development of the RPW estimates (the source for billing determinants), the two methods are not identical. That is the reason for the difference pointed out in your question.

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OCA/USPS-T32-11. This interrogatory seeks information on the total number of additional ounces for nonautomation presort letters. Please refer to USPS LR-L-77, Excel file "First-Class Mail_BDs_2005.xls," and worksheet tab "A-2 Nonautomated Presort." Also, please refer to USPS LR-L129, Excel file "LR-L-129.xls," worksheet tab "Nonauto Shp&Addl Ozs."

- a. In USPS LR-L-77, please confirm that the total number of additional ounces for nonautomated presort letters is 450,434. If you do not confirm, please explain.
- b. Please reconcile the total number of additional ounces in subpart a., above, with total number of additional ounces of 446,586 shown in USPS LR-L-129. Please show all calculations and provide citations to all sources used.

RESPONSE

- a. Confirmed.
- b. Please see my response to OCA/USPS-T32-10, subpart b, above.

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OCA/USPS-T32-12. This interrogatory seeks information on the number of nonmachinable letter-shaped, flat-shaped, and parcel-shaped pieces in the Base Year. Please refer to USPS LR-L-77, Excel file "First-Class Mail_BDs_2005.xls," worksheet tab "A-1 Single Piece Letters," and the BY 2005 total number of nonmachinable pieces of 464,250.

- a. Please provide the percentage of nonmachinable pieces in the Base Year for letter-shaped, flat-shaped, and parcel-shaped pieces. Please show all calculations and provide citations to all sources used.
- b. Please confirm that the percentage of nonmachinable letter-shaped, flat-shaped, and parcel-shaped pieces in TYBR 2008 would be the same as the percentages in the Base Year. If you do not confirm, please explain and show all calculations and provide citations to all sources used.

RESPONSE

- a. I have not calculated the nonmachinable pieces by shapes for the base year because Postal Service's proposal eliminates the current non machinable surcharge for letter and flat shaped pieces. The only nonmachinable surcharge proposed is for First-Class Business or Presort parcels. However, the data is available for the calculation of the percentages that you have requested. Library Reference LR-L-129, WP-FCM-4, spreadsheet 'SP Shp&Addl Ozs.' provides FCM single piece volumes by shape and ounce increments for FY 2005.
- b. Not necessarily. Given the classification changes proposed in this docket and the movement of parcel shaped pieces from single-piece to First-Class Mail Presort or Business parcels the proportion of various shapes as well as nonmachinable pieces does change from base year to test year. There may be other reasons for the forecast of the test year to have different proportions by shapes compared to base year.

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OCA/USPS-T32-13. This interrogatory seeks information on the revenue for single-piece nonmachinable pieces in the TYAR. Please refer to USPS LR-L129, Excel file "LR-L-129.xls," worksheet tab "Rev. FY08BR&FY08AR," Column (4) entitled "Test Year After Rates Volume (000)," which shows "Nonmachinable pieces" of 396,619.

a. Please provide the estimated TYAR revenue for the 396,619 Nonmachinable pieces separately for letter-shaped, flat-shaped, and parcel-shaped pieces. Please show all calculations and provide citations to all sources used.

b. Please confirm that the TYAR volume of "First Ounce[] Flats" should be calculated as follows: $(396,619 \text{ nonmachinable pieces} * a) + 3,064,107 \text{ first ounce flats}$, where a represents the percentage of nonmachinable letter-shaped pieces. If you do not confirm, please explain and show all calculations and provide citations to all sources used.

c. Please confirm that the TYAR volume of "First Ounce[] Parcels" should be calculated as follows: $(396,619 \text{ nonmachinable pieces} * b) + 267,218 \text{ first ounce parcels}$, where b represents the percentage of nonmachinable flat-shaped pieces. If you do not confirm, please explain and show all calculations and provide citations to all sources used.

RESPONSE

a. The estimate for nonmachinable pieces volume, 396,619, for test year is not being used for the calculation of TYAR revenues since the classification changes proposed by the Postal Service eliminates the nonmachinable surcharge for single-piece letters, flats and parcels.

b&c. The method described by you appears to be reasonable if one believes that the proportion of nonmachinable pieces in the test year after-rates is expected to remain the same as test year before rates of the base year depending on the assumed time period for the proportions 'a' and 'b'.

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OCA/USPS-T32-14. The following interrogatory seeks to clarify volume, revenue and contribution estimates for single-piece and presort First-Class Mail. Please refer to USPS-LR-L-129, worksheet tab “Revenue - SP&Presort.”

a. At line 9, the FY 2005 base year “Volume” for First-Class single-piece is keyed in as 43,371,362,808. Please reconcile this figure with FY 2005 base year volume of 43,374,873,000 shown on line 11 of worksheet tab “Base Year” of USPS-LR-L-129.

b. At line 26, the FY 2008 test year before rates “Per Unit Contribution” for First-Class single-piece is keyed in as \$0.230 (rounded). Please explain and show all calculations used to derive this figure, and provide citations to all source documents relied upon and a copy of such documents if not previously filed in this docket.

c. At line 26, the FY 2008 test year before rates “Per Unit Contribution” for First-Class presort is keyed in as \$0.231 (rounded). Please explain and show all calculations used to derive this figure, and provide citations to all source documents relied upon and a copy of such documents if not previously filed in this docket.

RESPONSE

a. The keyed in volume in the worksheet tab “Revenue – SP&Presort” is taken from the Cost and Revenue Analysis (CRA) report, while the FY 2005 base year volume is from the RPW report which is the basis for billing determinants. There is a slight difference between the RPW and CRA volume estimates. For the 2005 financials, the CRA volume estimate was used because the volume variable cost estimates are used from the same source. These financials are presented for illustrative purposes and are not used in the designing of rates. My understanding is that this difference is due to the definitions of First-Class single-piece. RPW includes the Free Mail for the Military in First-Class single-piece category while CRA moves Free Mail for the Military to the CRA’s free mail category.

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RESPONSE to OCA/USPS-T32-14 (continued):

- b. Both cells B26 and C26 were derived iteratively to achieve the following goals: Meet the initial revenue requirement of approximately \$36 billion (cell C30), similar contribution from presort (\$0.231 – Cell C26) and single-piece (\$0.230 – Cell B26) mail streams and the initial estimates of the revenue to be derived from these two mail streams, approximately \$19.5 billion (cell B29) from single-piece and \$16 billion (cell C29) from presort.
- c. Please see my response to subpart b, above.

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OCA/USPS-T32-15. The following interrogatory seeks to clarify a rate design formula for First-Class Mail. Please refer to USPS-LR-L-129, worksheet tab "Rate Design SP." At line 36, column B, please explain why the formula "Round(((B33/B35)-0.03),2)" includes a subtraction of 0.03. Show the derivation of all calculated values, provide citations to all source documents relied upon and a copy of such documents if not previously filed in this docket.

RESPONSE

The process of designing rates is iterative and requires judgment regarding the revenue requirement, rate relationships and a host of other factors. Mechanically derived, the additional ounce rate for single-piece letters, flats and parcels would be different than the Postal Service's proposal. The subtraction referred to in your question reflects the qualitative judgment exercised during the iterative process to help the rate design meet the revenue requirement, rate relationships, and other rate design objectives.

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OCA/USPS-T32-16. The following interrogatory seeks to clarify the development of revenues for First-Class Mail. Please refer to USPS-LR-L-129, worksheet tab "Rate Design SP."

a. At line 33, column B, the amount of "Additional Revenue Needed" is \$2,716,773,423. At line 35, column B, the number of "Additional Ounces" is 11,902,163,548. The Postal Service's proposed an additional ounce rate of \$0.20 multiplied by the Additional Ounce volume yields revenue of \$2,380,432,710 ($\$0.20 * 11,902,163,548$). Please confirm that the revenue shortfall is \$336,340,713 ($\$2,716,773,423 - \$2,380,432,710$). If you are unable to confirm, please explain and show all calculations used to derive the corrected amount, provide citations to all source documents relied upon and a copy of such documents if not previously filed in this docket.

b. Please explain where the Postal Service proposes to recoup the \$336,340,713. Show the derivation of all calculated values, provide citations to all source documents relied upon and a copy of such documents if not previously filed in this docket.

c. If the Postal Service does not plan on recouping the \$336,340,713, please explain why not.

RESPONSE

a. The arithmetic posited in your question is accurate but the difference of \$336 million is not a revenue shortfall. The revenue that is used to achieve break-even in the test year is based on the proposed rate of 20 cents for single-piece additional ounces. Please see my response to OCA/USPS-T32-15, above. The starting revenue for rate design purposes is usually higher than the target revenue to be achieved in test year after rates calculation of postage.

b. Please see my response to subpart a, above.

c. There is no plan to recoup the \$336 million because there is nothing to recoup. The after rates revenue calculation accounts for all of the revenue

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RESPONSE to OCA/USPS-T32-16 (continued):

generated by the proposed prices. Also please see my response to subpart a, above.