Postal Rate Commission
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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. 7,
QUESTIONS 3-9
(July 13, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 7, Questions 3-9, issued June 29, 2006. The following witnesses are sponsoring the identified responses to this POIR:

Witness Bradley (T17)	Questions 3 - 8
Witness Kiefer (T36)	Question 9

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 U. S. POSTAL SERVICE WITNESS KIEFER (USPS-T-36) TO PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 7, QUESTION 9.

9 Please refer to USPS LR-L-36, ECR rate design worksheets.

a. Please explain why the pound formula was used for the high density letter rate. Confirm that using this formula results in a presort discount for high density letters of 4.3 cents rather than the 3.4 cents stated as the rate differential.
b. Please explain in detail how the difference in the pound rate for letters and non-letters was calculated.

RESPONSE

a. Usually I used the piece and pound formula to determine the price for the most expensive piece in a category, for example, the Basic density tier. In the case of ECR letters, I followed the Postal Service's past practice of exogenously setting the rates for Basic letters equal to the corresponding rates for Basic flats. This was done, as in the past, to support the Postal Service's automation program by giving mailers a price incentive to prepare automation compatible letters, rather than smaller carrier-route bundles of letters. Because the Basic letter rates were not set separately from the Basic flat rates by using the piece-pound formula (with the weight set at the breakpoint weight), setting the High Density letter rates by taking a discount off the Basic letter rates would be equivalent to making the High Density letter rates discounted Basic flat rates. Instead, I chose to develop a conceptual "base price" for ECR letters using the per-piece and per-pound rate elements shown in cells D7 and D8 of WP-STDECR-16, and then take the discount off that "base price." This can be seen by inspecting the formulas for the High Density letters rates contained in cells H26 through J26 of WP-STDECR-16. The letter rate elements apply only to the proposed pricing for ECR minimum per piece-rated letters. Therefore, using the formula served only as a tool to effect the choice of High Density (and Saturation) letter prices. The rate differential of 3.4 cents refers to the difference between the conceptual "base price" for ECR letters. The actual

difference between the High Density letter prices and the ECR Basic letters price (i.e. Basic flats price) is 4.3 cents.

b. No formula was used to determine this rate element. My pound rate elements for letters and flats started out the same (see also my response to VP/USPS-T36-7(b) and 7(c)(i)) but the pound rate element for flats was adjusted over the course of numerous iterations to achieve the ECR target revenue while maintaining appropriate rate changes and rate relationships. Since the piece and pound rate elements for letters are only used to develop rates for minimum per piece-rated letters, the absolute value of the pound rate element, taken by itself, has no special importance. It could easily have been set equal to the flats pound rate element and the piece rate element adjusted to achieve the same prices I am proposing, as was done for Standard Mail Regular. In the end, my view is that the mathematical mechanisms I used to develop the proposed rates are of lesser importance than the rates themselves. I believe that the proposed letter rates are reasonable and appropriate within the context of this case.