

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 YEH  
TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE  
(POSTCOM/USPS-T38-1 - 6)**

The United States Postal Service hereby provides the responses of witness Yeh to the following interrogatories of PostCom., filed on July 14, 2006: POSTCOM/USPS-T38-1 - 6.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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TO INTERROGATORY OF POSTAL COMMERCE

**POSTCOM/USPS-T38-1.**

Please refer to page 9 of your testimony where you state that you propose to “pass along” approximately 123% of the difference in estimated costs between BPM flats and BPM parcels and irregular pieces, and states that this passthrough “will help distinguish flats and parcel rates and aid in providing reasonable contributions from both shapes.”

- a. Please confirm that there are three shapes in the Bound Printed Matter category: flats, parcels, and irregular parcels which may otherwise, in fact, meet the dimensions of a flat. If you do not confirm, please explain your answer in detail.
- b. Please explain why it is important to your rate design to “distinguish” flats and parcels by an amount that is greater than the cost differential between the types of mail that comprise this category.
- c. Please provide any data you relied upon showing the number of pieces that meet the definition of a Bound Printed Matter flat, but are treated as “irregular parcels” and therefore subject to the rate differential described in your testimony. If you do not have such data, please set forth in detail the assumptions you made with respect to the volume of irregular parcels.
- d. Please provide any worksheets or other calculations you have made in reaching the conclusion that a 123% passthrough of the flat-parcel differential is appropriate to achieve a “reasonable contribution” from each of the shapes of mail matter referred to at page 9 of your testimony. If you have no such calculation, please explain the basis for your statement concerning “reasonable contributions.”

**RESPONSE:**

- a. Not confirmed. It is my understanding that flats and parcels are the only two shapes in the BPM category and that irregular parcels are a subset of the parcel category. A mail piece may be approximately flat-shaped but if it does not satisfy the DMM definition of a BPM flat, it is treated as an irregular parcel.
- b. Please see my response to P.O.I.R. No. 5, 2b.
- c. These data are not available. I did not make any separate assumption with respect to the volume of irregular parcels.
- d. As stated in my response to P.O.I.R. No. 5, question 2.b, estimates of mail processing cost differences between BPM flats and parcels were not available to

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me at the time I developed BPM rates. However, after inspecting witness Smith's estimates of the mail processing costs for BPM flats (23.71 cents) and parcels (62.28 cents), I believe my proposed flat-parcel differential is modest and reasonably acknowledges that the cost differences between parcels and flats are not limited to delivery cost differences. Please refer to witness Smith's worksheet titled "Summary of All Volume-Variable Mail Processing Unit Costs – Letters, Flats, Parcels, All Shapes" in file "shp08usps.xls." in library reference, USPS-LR-L-53. In my testimony, I stated, "My proposal will help distinguish flats and parcels rates and aid in providing reasonable contribution from both shapes." By "reasonable" I meant the proposed rates as a whole satisfied all the rate design objectives: cover costs, maintain reasonable rate relationships, and result in acceptable rate changes.

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**POSTCOM/USPS-T38-2.**

Please refer to your response to P.O.I.R. No. 5, question 2.b in which you state that “in the spirit of recognizing that mail processing cost differences may be an additional cost difference between BPM flats and parcels,” you propose to pass through in excess of 100% of the delivery cost differences for the BPM flat-parcel differential.

- a. Please set forth in detail any data upon which you have relied in estimating that the difference in mail processing costs as between BPM flats and BPM parcels may be as much as 23-24% of delivery cost differences.
- b. Please confirm that the 124% passthrough of the BPM flat parcel differential you have proposed is based on an average cost difference that does not reflect differences between parcels, irregular parcels and flats by level of sortation or extent of drop entry. If you do not confirm, please explain your answer in detail.

RESPONSE:

- a. Please see my response to POSTCOM/USPS-T38-1.
- b. Confirmed if the passthrough stated was meant to be 123%.

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**POSTCOM/USPS-T38-3.**

Please refer to page 10 of your testimony where you describe manner in which you have computed the destination entry rates for BPM.

- a. Please confirm your understanding that the unit cost saving estimates for drop shipped BPM reflects the combined avoided costs of drop entered flats and drop entered parcels at all of the entry levels specified. If you do not confirm, please state your understanding of the data from witness Miller that you relied upon in the development of the drop entry rates.
- b. Please provide any data you relied upon showing separately the average weight of BPM parcels and flats and the average density of BPM parcels and flats. If you have no such data, please explain any assumptions you made concerning differences in weight and density in developing the BPM drop entry discounts you have proposed.
- c. Please provide any worksheets, or other data, showing the manner in which you calculated the passthroughs of cost savings for drop entry rates as set forth at page 11 of your testimony.

**RESPONSE:**

- a. Not confirmed. It is my understanding that witness Miller's unit cost saving estimates for drop shipped BPM reflect the avoided costs of drop entered parcels.
- b. These data are not available. I did not make any assumption concerning differences in weight and density between flats and parcels in developing the proposed BPM drop entry discounts.
- c. The passthroughs of cost savings for drop ship rates were exogenously chosen to produce rates that are consistent with all the rate design objectives There are no workpapers for the passthrough selection process.

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**POSTCOM/USPS-T38-4.**

Please refer to the attached DMM Advisory and accompanying DMM language concerning a new drop ship "option" applicable to Bound Printed matter machinable parcels to certain 5-digit zip codes prepared on 3-digit pallets or in 3-digit boxes when entered at a sectional center facility.

- a. Is it your understanding that BPM mailers preparing shipments as described in DMM Section 466.3.0 and entering such pallet or pallet boxes at a DSCF will qualify for the DSCF rates you have proposed? If that is not your understanding, please explain your understanding of this "option" and what effect, if any, it will have on the revenues and avoided costs of drop entered Bound Printed Matter parcels under your rate schedule.
- b. Were you aware of the drop entry "option" referenced in the DMM Advisory at the time you prepared your testimony concerning BPM rates?

RESPONSE:

- a. It is my understanding that DBMC rates apply, not DSCF rates. Since it is my understanding that these pieces formerly would have received the DBMC rates, no revenue impact is anticipated. I have not estimated any changes in costs.
- b. No.

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**POSTCOM/USPS-T38-5**

Please refer to page 8, line 4 of your testimony where you state that you “include the standard two cents per pound allowance for weight-related non-transportation costs...”. Please identify the source of this “standard” allowance and provide any supporting data.

RESPONSE:

Please refer to Docket No. R84-1, “Opinion and Recommended Decision,” volume 1, pages 581 – 582.

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**POSTCOM/USPS-T38-6.**

Please refer to page 16, line 14 of your testimony where you state that you add “the customary two cents per pound add-on for weight-related non-transportation costs...”. Please identify the source of this “customary” add-on and provide any supporting data.

RESPONSE:

Please see my response to POSTCOM/USPS-T38-5.