

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 TO FOLLOW-UP  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION  
(MMA/USPS-21-23)

The United States Postal Service hereby files its responses to the above-listed interrogatories, filed on July 17, 2006.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 31, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY  
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**MMA/USPS-21**

Please refer to your response to MMA/USPS-T22-33 Part (B) (redirected from USPS witness Abdirahman).

The interrogatory referred you to pages 2 and 3 of Library Reference USPS-LR-L-141 (filed in response to POIR No. 5) which show the BMM “proportional” mail processing unit costs derived from the CRA (8.108 cents) and the mail-flow model (5.193 cents), respectively. Part (B) of MMA/USPS-T22-33 then asked confirmation that the BMM model provided by the Postal Service in response to POIR No. 5 is the only indication in R2006-1 that showed how well the mail flow models represent actual costs for letters that require processing within the Remote Bar Code System (RBCS).

You failed to confirm the statement in Part (B) and state that another portion of Library Reference USPS-LR-L-141, as well as portions of USPS-LR-L-48 and L-110, show that single piece nonmachinable letters are also processed in the RBCS.

Part (B) of MMA/USPS-T22-33 did **not** ask whether any other letter categories that were modeled also required processing within the RBCS. You were asked to confirm that the BMM model was the only model in R2006-1 whose results **could be compared to a CRA standard** in order to assess how well the mail flow models represent actual costs.

- A. Please confirm that there are no CRA costs available for single piece nonmachinable letters to compare how well the model results for such letters represent the actual costs obtained from the CRA. If you cannot confirm, please explain where CRA costs for single piece nonmachinable letters can be found in the R2006-1 record.
- B. Please confirm that the results of the BMM model provided in response to POIR No. 5 provide the only indication in R2006-1 as to how well the mail flow models represent actual costs (as obtained from the CRA) for a letter category that must be processed within the RBCS. If you cannot confirm, please explain.

**Response:**

A. Confirmed.

B. Partially confirmed. It is confirmed that there is nothing else on the record for R2006-1 showing model results for letter categories going through RBCS operations. However, the POIR response to which you refer is modeling

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metered letters which may contain handwritten letters. Furthermore, if you look at costs at the operation level, the results are not as clear cut with regard to the direction of the model's overstatement or understatement of costs.

<u>Operation - Cost Pool</u>	<u>Cost Sheet Value</u>	<u>Cost Pool Value</u>	<u>Difference</u>
ISS - OCR	1.162	1.146	0.016
RCR,REC,LMLM - LD15	0.134	0.378	(0.245)
OSS - BCS/DBCS	0.097	?.???	?.???

As the models are structured, RBCS is defined to include the ISS, RCR, REC, OSS, and LMLM operations. As you can see, the ISS values are fairly close between what is calculated in the cost sheet and the cost pool value. The LD 15 operations (RCR, REC, and LMLM) appear to understate the cost pool value. As has been stated on many occasions, however, the cost pool values are for all single-piece metered letters, not just BMM letters, which are considered to be homogenous trays of mail with machine printed addresses. Metered letters in general, however, could have handwritten addresses, which could explain the discrepancy between the cost sheet and cost pool values. Finally, the OSS costs are imbedded in the BCS/DBCS cost pool such that you can't compare the two values. Given that it is part of RBCS, it is not clear you could really use any model, as they are currently structured, as a tool to evaluate how accurately the RBCS costs are modeled. Moreover, the Postal Service is not using BMM letters cost estimate as a benchmark in this case.

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**MMA/USPS-22**

Please refer to your response to Part (B) of Interrogatory MMA/USPS-T22-34 (redirected from USPS witness Abdirahman), which asked you to assume that the BMM mail flow model understates the number of letters that could be processed by automation. Using this assumption you were asked to confirm that the BMM model derived DPS % of 82.65% would be too high.

Your answer was no. You go on to explain that the DPS % would be higher if more letters were processed by automation.

- A. Please assume that the BMM mail flow model shows that 9,125 of 10,000 letters can be processed by automation, the model-derived DPS% is 82.65% and that the model-derived unit cost is 5.183 cents. Assume further that in fact only 7,500 of 10,000 letters can be processed by automation. Using this hypothetical, please confirm that it is likely that (1) the model derived DPS% of 82.65% is too high and (2) the model-derived unit cost of 5.183 cents is too low. If you cannot confirm, please explain.
- B. Please assume that the BMM mail flow model shows that 9,125 of 10,000 letters can be processed by automation, the model-derived DPS% is 82.65% and that the model-derived unit cost is 5.183 cents. Assume further that in fact the actual unit cost to process BMM letters is 8.0 cents. Using this hypothetical, please confirm that it is likely that (1) the model derived DPS% of 82.65% is too high and (2) the model-derived assumption that 9,125 of 10,000 letters can be processed by automation is overstated. If you cannot confirm, please explain.
- C. Please assume that the BMM mail flow model shows that 9,125 of 10,000 letters can be processed by automation, the model derived DPS% is 82.65% and that the model-derived unit cost is 5.183 cents. Assume further that in fact the actual DPS % for BMM letters is 70%. Using this hypothetical, please confirm that it is likely that (1) the model-derived assumption that 9,125 of 10,000 letters can be processed by automation is overstated and (2) the model-derived unit cost of 5.183 cents is too low. If you cannot confirm, please explain. If you cannot confirm, please explain.

**Response:**

- A. The question posed here is the opposite of what your original question in MMA/USPS-T22-34 asked. The original question incorporated a hypothetical that assumed that the mailflow model understated the share of letters that were successfully processed on automation, whereas the current hypothetical assumes that the mail flow model overstates the share of letters successfully

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processed on automation. Based on the hypothetical as currently posed, the response is “confirmed.”

B. Not confirmed. This hypothetical states that the modeled cost does not match the actual cost, and assumes that only two possible reasons could exist for that discrepancy. In fact, the reasons for the difference in unit cost estimates may be due to something other than the DPS percentage or the success in processing on automation. For instance, please see the response to MMA/USPS-21B. It is also worth noting, again, that the “actual unit cost” to which you refer is not the cost for BMM, but the cost for the proxy of metered letters. The IOCS system cannot be used to isolate BMM letters mail processing unit cost estimates by shape. Consequently, the cost estimate for all metered letters is used. Furthermore, DPS data by rate category are not available. It is therefore not possible to determine, at the rate category level, whether a DPS percentage is too high or too low. The model inputs are what affect the model cost estimates. The DPS percentages are only a reflection of those inputs. The Postal Service has abandoned using the models to calculate DPS percentages at the rate category level in the instant proceeding, because it was determined that the models may not accurately estimate DPS percentages. Please refer to the response to MMA/USPS-T22-7 and MMA/USPS-T42-7.

C. Confirmed.

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**MMA/USPS-23**

Please refer to your responses to Part (A) of Interrogatory MMA/USPS-T22-32 and Parts (B) and (D) of Interrogatory MMA/USPS-T22-35. In response to Part (A) of MMA/USPS-T22-32, you confirmed that, compared to the CRA cost for processing BMM, the model-derived unit cost was low by 2.915 cents or 36%. In your response to Part (B) of MMA/USPS-T22-35, you confirmed that BMM and NAMMA letters have similar physical characteristics and would be expected to have similar cost characteristics. However, your response to Part (D) of MMA/USPS-T22-35 failed to confirm that it is *likely* that the model-derived unit cost for NAMMA letters is as understated as the model-derived unit cost for BMM.

- A. Please confirm that USPS witness Abdirahman utilizes the CRA Proportional Adjustment factor derived for BMM letters (in R2005-1) to increase the model-derived unit cost for hand-addressed letters. See Library Reference USPS-LR-L-69, Schedule A, page 1. If you cannot confirm, please explain.
- B. Please confirm that the reason why USPS witness Abdirahman applies the BMM CRA Proportional Adjustment factor to increase the model-derived unit cost for hand-addressed letters is that it is likely that the model for hand-addressed letters understates actual CRA costs in the same way that the model for BMM model does. If you cannot confirm, please explain why the BMM CRA Proportional Adjustment factor was utilized to increase the model-derived unit cost for hand-addressed letters.
- C. Why doesn't Postal Service find it necessary to increase the model-derived unit cost for NAMMA letters by a percentage similar to the increase applied to the model-derived unit cost for hand-addressed letters?
- D. Please confirm that the Postal Service uses the CRA-derived unit cost for single piece metered letters as a proxy for the unit cost of its BMM benchmark, notwithstanding the fact that the BMM model produces a unit cost estimate that is 36% lower. If you cannot confirm, please explain.
- E. In light of your confirmation that BMM and NAMMA letters can be expected to exhibit similar cost characteristics, please explain why the Postal Service's model-derived unit cost for NAMMA letters is not adjusted upward in the same manner as the model-derived unit cost for hand-addressed letters is.
- F. What is meant by the reference to Part D in your response to Part (D) of MMA/USPS-35?

**Response:**

- A. Confirmed.

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- B. The CRA adjustment factor is used to bring the modeled costs into alignment with the CRA-derived costs when the CRA-derived costs are available. In this particular case, the CRA adjustment factor happens to increase the modeled cost, but that should not be interpreted to mean that the modeled cost under- or overstates the actual cost. The CRA adjustment factor for BMM was used as the proxy for the QBRM analysis because BMM letters, QBRM letters, and handwritten letters reply mail letters are all subsets of the First-Class single-piece letters mail.
- C. The Nonautomation letters introduce additional issues that do not concern BMM letters, namely, the information addressed in the response to POIR No. 1, Question 1a in Docket No. R2005-1, which is why auto and nonauto costs are combined in this case.
- D. Not confirmed. The Postal Service is not proposing the use of the BMM benchmark in this case. However, it can be confirmed that in the exercise performed for POIR 5, the CRA-derived unit cost for single piece metered letters is used as a proxy for the unit cost of the BMM benchmark.
- E. Please see the response to part C above.
- F. Please see the response to MMA/USPS-35, part B only.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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July 31, 2006