

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. 9  
(August 10, 2006)

The United States Postal Service hereby provides the remaining responses to Presiding Officer's Information Request (POIR) No. 9, issued July 25, 2006. Responses to Question 4 and 5 were filed on August 7, 2006. The following witnesses are sponsoring the identified responses to this POIR:

|                 |                |
|-----------------|----------------|
| Witness Bozzo   | Question 6     |
| Witness Cutting | Questions 7-12 |
| Witness Tang    | Question 2     |
| Witness Thress  | Question 1     |
| Witness Yeh     | Question 3     |

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 POSTAL SERVICE WITNESS THRESS  
TO POIR NO. 9, QUESTION 1

1. Please refer to USPS-LR-L-63, file "Prices.xls", sheet "Periodicals."
  - a. Please confirm that the proposed Regular rates for Periodicals in cells AY212 through AY230, cells AY234 through AY237, cells AY239 through AY240, cells AY256 through AY274, cells AY278 through AY281, cells AY283 through AY284, and cell AY298 are not the same as the proposed Periodicals Outside County rates listed in Rate Schedule 421, included in Attachment A, pages 33 and 75 of the Request and USPS-T-35 at page 13.
  - b. If your answer to a. is confirmed, please provide conforming, corrected rates for these documents and cells.

**RESPONSE:**

- a. Confirmed.
- b. Please see the attached spreadsheet.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO POIR NO. 9, QUESTION 1

**Value in Prices.xls, sheet Periodicals, column AY**

| <u>Row Number</u> | <u>BILLING DETERMINANT</u>                         | <u>As Filed</u> | <u>Corrected</u> |
|-------------------|--|-----------------|------------------|
| 212               | POUNDS NONADV, DDU                                 | \$0.181         | \$0.154          |
| 213               | POUNDS NONADV, SCF                                 | \$0.206         | \$0.193          |
| 214               | POUNDS NONADV, ADC                                 | \$0.216         | \$0.210          |
| 215               | POUNDS NONADVERTISING                              | \$0.230         | \$0.232          |
| 216               | POUNDS ADVERTISING DEL OFF                         | \$0.180         | \$0.181          |
| 217               | POUNDS ADVERTISING SCF                             | \$0.229         | \$0.230          |
| 218               | POUNDS ADVERTISING ADC                             | \$0.250         | \$0.251          |
| 219               | POUNDS ADVERTISING ZONES 1&2                       | \$0.278         | \$0.279          |
| 220               | POUNDS ADVERTISING ZONE 3                          | \$0.300         | \$0.301          |
| 221               | POUNDS ADVERTISING ZONE 4                          | \$0.357         | \$0.358          |
| 222               | POUNDS ADVERTISING ZONE 5                          | \$0.443         | \$0.444          |
| 223               | POUNDS ADVERTISING ZONE 6                          | \$0.534         | \$0.535          |
| 224               | POUNDS ADVERTISING ZONE 7                          | \$0.643         | \$0.644          |
| 225               | POUNDS ADVERTISING ZONE 8                          | \$0.737         | \$0.738          |
| 226               | SC OF AG POUNDS, DO DISCOUNT, NONADV               | \$0.137         | \$0.115          |
| 227               | SC OF AG POUNDS, SCF DISCOUNT, NONADV              | \$0.155         | \$0.144          |
| 228               | SC OF AG POUNDS, ADC DISCOUNT, NONADV              | \$0.163         | \$0.157          |
| 229               | SC OF AG, POUNDS, TO ZONES 1&2, NONADV             | \$0.173         | \$0.174          |
| 230               | SC OF AG POUNDS, DO DISCOUNT, ADV                  | \$0.135         | \$0.136          |
| 234               | PIECES, REQUIRED PRESORT                           | \$0.416         | \$0.437          |
| 235               | PIECES, 3-DIGIT PRESORT                            | \$0.361         | \$0.364          |
| 236               | PIECES, 5-DIGIT PRESORT                            | \$0.280         | \$0.283          |
| 237               | PIECES, CARRIER-ROUTE PRESORT                      | \$0.188         | \$0.186          |
| 239               | PIECES SCF DISCOUNT                                | (\$0.008)       | (\$0.011)        |
| 240               | PIECES ADC DISCOUNT                                | (\$0.002)       | (\$0.003)        |
| 256               | POUNDS NONADV, DDU, COMMINGLED                     | \$0.181         | \$0.154          |
| 257               | POUNDS NONADV, SCF, COMMINGLED                     | \$0.206         | \$0.193          |
| 258               | POUNDS NONADV, ADC, COMMINGLED                     | \$0.216         | \$0.210          |
| 259               | POUNDS NONADVERTISING COMMINGLED                   | \$0.230         | \$0.232          |
| 260               | POUNDS ADV, DEL OFFICE COMMINGLED                  | \$0.180         | \$0.181          |
| 261               | POUNDS ADV SCF, COMMINGLED                         | \$0.229         | \$0.230          |
| 262               | POUNDS ADV ADC, COMMINGLED                         | \$0.250         | \$0.251          |
| 263               | POUNDS ADV COMMINGLED ZONES 1&2, COMMINGLED        | \$0.278         | \$0.279          |
| 264               | POUNDS ADV ZONE 3, COMMINGLED                      | \$0.300         | \$0.301          |
| 265               | POUNDS ADV ZONE 4, COMMINGLED                      | \$0.357         | \$0.358          |
| 266               | POUNDS ADV ZONE 5, COMMINGLED                      | \$0.443         | \$0.444          |
| 267               | POUNDS ADV ZONE 6, COMMINGLED                      | \$0.534         | \$0.535          |
| 268               | POUNDS ADV ZONE 7, COMMINGLED                      | \$0.643         | \$0.644          |
| 269               | POUNDS ADV ZONE 8, COMMINGLED                      | \$0.737         | \$0.738          |
| 270               | SC OF AG POUNDS, DO DISCOUNT, NONADV, COMMINGLED   | \$0.137         | \$0.115          |
| 271               | SC OF AG POUNDS, SCF DISCOUNT, NONADV, COMMINGLED  | \$0.155         | \$0.144          |
| 272               | SC OF AG POUNDS, ADC DISCOUNT, NONADV, COMMINGLED  | \$0.163         | \$0.157          |
| 273               | SC OF AG, POUNDS, TO ZONES 1&2, NONADV, COMMINGLED | \$0.173         | \$0.174          |
| 274               | SC OF AG POUNDS, DO DISCOUNT, ADV, COMMINGLED      | \$0.135         | \$0.136          |
| 278               | PIECES, REQUIRED PRESORT, COMMINGLED               | \$0.416         | \$0.437          |
| 279               | PIECES, 3-DIGIT PRESORT, COMMINGLED                | \$0.361         | \$0.364          |
| 280               | PIECES, 5-DIGIT PRESORT, COMMINGLED                | \$0.280         | \$0.283          |
| 281               | PIECES, CARRIER-ROUTE PS, COMMINGLED               | \$0.188         | \$0.186          |
| 283               | PIECES SCF DISCOUNT, COMMINGLED                    | (\$0.008)       | (\$0.011)        |
| 284               | PIECES ADC DISCOUNT, COMMINGLED                    | (\$0.002)       | (\$0.003)        |
| 298               | CONTAINER FEE                                      | \$0.800         | \$0.850          |

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO POIR NO. 9, QUESTION 2

2. The following questions refer to Notice of United States Postal Service of Filing of Errata to Library Reference L-126 [Errata], July 13, 2006.
- a. Please refer to the following statement on page 3: "In worksheet 'Pound Data\_Ed', the formula in cell C8 has been updated to '=Round ((1-0.75)\*0.232, 3)', letting 0.232 replace the original 0.203." Please confirm that cell C8 should be cell C22. If you do not confirm, please explain fully.
  - b. Please refer to the following statement on page 5: "As a result, the corresponding postage in cell D23 has been changed from 87,762 to 92,655; cell D24 has been changed from 80,682,878 to 80,687,773; and cell D26 from 82,245,878 to 82,250,773." Please confirm that the corrected revenue appearing in cell D26 is 82,354,143. Please explain the discrepancy fully.
  - c. Please refer to the following statement on page 6: "Accordingly, the following passthroughs in worksheet 'Piece Discount[s] 2' have been slightly adjusted to maintain the proposed rates: the passthrough on Basic Automation Letters (cell D6) has been adjusted from 20 percent to 20.2 percent; the passthrough on Carrier Route High Density (cell D16) has been adjusted from 62 percent to 65 percent; and the passthrough on Carrier Rout[e] Saturation (cell D17) has been adjusted from 63 percent to 64 percent." Please confirm that cell D16 should be cell D15. If you do not confirm, please explain fully.
  - d. Please refer to the following statements on pages 2, 3, and 5:  
"However, in worksheet 'Piece Discounts', cell C3, 'required revenue', the total fees used as an input in the formula has been held at the original 18,072,000, in order to maintain the proposed rates." (Page 2.)  
"The original ride-along revenue is used as an input in the formula to derive 'required revenue' (cell C3) in worksheet 'Piece Discounts,' in order to maintain the proposed rates." (Page 3.)  
"These updated costs are included only in the final financial summary to show the adjusted cost coverages for both Outside County and Within County. They are not included in the rate design inputs, so that the proposed rates are maintained." (Page 5.)  
Please explain fully your rationale for using unrevised data in order to maintain the originally proposed rates.

**RESPONSE:**

- (a-b) Confirmed.
- (c) Confirmed. Also, cell D17 should be cell D16.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO POIR NO. 9, QUESTION 1

(d) Since the Postal Service does not intend to change its Request by modifying any particular prices at this stage of the proceeding, it was determined that my workpapers should display the prices as proposed in order to avoid a mismatch. The proposed prices can be maintained in most instances by slight adjustments in other inputs, such as passthroughs, as described in part c. However, in some instances, revised data, if input directly into my workpapers, would generate alternative prices. Such is the case in this instance. Since those alternative prices were not the ones used for the volume forecast and subsequent revenue calculations, the decision was made to limit the possible confusion by keeping the prices in my workpapers consistent with those that were proposed and were used throughout the rest of the Request. I do not disavow the revised figures, and fully expect that they will be used as the rate case process moves forward.

RESPONSE OF POSTAL SERVICE WITNESS YEH  
TO POIR NO. 9, QUESTION 3

3. The Postal Service proposes to change the eligibility for Single-Piece Bound Printed Matter (BPM) by, among other things, restricting postage payment options to either customer-generated postage meter or permit imprint. USPS-T-38 at 6, n.2. Apart from any consideration of its merits, this proposal represents a classification change. The Postal Service is requested to address the statutory criteria set forth in section 3623 of the Postal Reorganization Act in support of this proposal.

**RESPONSE:**

The Postal Service no longer intends to impose such restrictions. Please see the revision to USPS-T-38, at 6, n.2.

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

6. Please refer to witness Van-Ty-Smith Tables 5.1, 5.2, and 5.3 provided in USPS.T.11.Rule.53.Tables.xls showing volume variable costs by subgroup of cost pools for Plants, Post Offices, Stations and Branches, and BMCs. Examining the growth rate in total mail processing costs by subclasses between FY 2005 and FY 2004 shows that certain subclass cost increases appear disproportionate to their volume changes for the same period. For example, Outside County Periodicals volumes declined by .8 percent while its mail processing costs increased by 5 percent. Similarly, Standard ECR volume increased by 6 percent while its corresponding costs went up by 53 percent.
- a. Identify the cost drivers including any operational or cost methodological changes that may have led to such increases in Periodicals, Standard ECR, etc.
  - b. Please provide an explanation in those instances where the cost pool has increased or decreased more than 10 percent in FY 2005 compared to FY 2004.

**RESPONSE:**

- a. The discussion of subclass cost changes in USPS-T-46, Section IV.C (pages 31-41) is largely applicable both to the Postal Service and Commission costing methods. To facilitate discussion of certain differences, in Attachment 1 to this response, I show a table comparable to USPS-T-46, Table 6, based on the Commission's mail processing cost methods. Major differences are as follows:
  - Priority Mail; Package Services subclasses: These categories show smaller "distribution key" effects compared to the Postal Service methodology. This appears to be the result of the Commission's mixed-mail methods generally not making use of shape and item information from "identified" mixed-mail tallies in allied labor cost pools. Thus, my understanding is that the increased

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

tallies for loose parcels in mixed containers (see USPS-T-46, page 40, lines 2-6) would be distributed, in large part, to non-parcel shape mail.

- Outside-County Periodicals: The unit cost increase in the Commission method, net of the increase in the volume-variable cost (VVC) level, is relatively small (3.5%) and no more than marginally significant (1.6 standard errors), though differs from Postal Service methods which show zero UVVC increase above the VVC cost level change. The difference appears to result from the distribution of certain mixed-mail tallies in the Commission's method, as noted above.
  - Express Mail: The "cost pool" effect is larger in the Commission's method, driven by a percentage increase in MODS workhours for the Function 4 Express Mail cost pool (LD48 EXP) that exceeds the increase in the Postal Service's IOCS-based PO/Station/Branch costs in Express Mail pools.
- b. Instances in which the cost associated with a cost pool has increased or decreased more than 10 percent in FY 2005 compared to FY 2004 reflect four main causes:
1. Redefinitions of cost pools, as described in Section B.1 of USPS-T-11, page 4 to page 6, starting at line 13, items 1-3. The following table shows the "gross" change from BY 2004 to BY 2005, the "would-have-been"

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

change applying BY 2004 cost pool definitions to FY 2005 costs, and a description of the change.

| SAS Name | Cost Pool                | BY 04-<br>BY 05<br>change | Change w/<br>BY04 pool<br>definitions | Explanation   |
|----------|--------------------------|---------------------------|---------------------------------------|---|
| SPBSPRIO | SPBS – Priority          | 53%                       | 5%                                    | Transfer of costs from PMPC cost pool to specific MODS operations                 |
| PRIORITY | Manual Priority          | 36%                       | 9%                                    |   |
| 1PLATFRM | Platform                 | 13%                       | 9%                                    |   |
| PMPC     | PMPCs                    | -100%                     | 26%                                   | Additional non-Priority Mail operations at L&DCs; increased Priority Mail volumes |
| INTL ISC | Int'l Service Centers    | 35%                       | 1%                                    | Transfer of costs for a facility from the BMC group to the ISC pool               |
| LD 15    | LDC 15 (Remote Encoding) | 24%                       | 4%                                    | AFSM video coding transferred to LDC 15 cost pool (work carried out at RECs)      |

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

2. Increases or decreases in mail processing workloads, as shown in the responses to TW/USPS-T11-b/c and to Docket No. R2005-1, TW/USPS-T11-11 (Docket No. R2005-1, Tr. 5/1478-1491). Please observe that for MECPARC, 1SACKS\_M, and 1TRAYSRT, the percentage change in cost is smaller than the percentage change in workload.

| SAS Name | Cost Pool                                 | BY 04-<br>BY 05<br>increase | Explanation                              |
|----------|---|-----------------------------|--|
| FSM/     | FSM 881                                   | -100%                       | FSM 881 equipment withdrawn from service |
| MECPARC  | Mechanized parcels (MODS)                 | -29%                        | Workload (TPH) decrease of 54%.          |
| 1SACKS_M | Mechanized Sort—<br>Sacks/Outsides (MODS) | -19%                        | Workload (TPH) decrease of 36%           |
| 1TRAYSRT | Mechanized Tray Sorter (MODS)             | 14%                         | Workload (TPH) increase of 31%           |

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

3. Updates in cost pool MODS hours as shown in Table I-2A of USPS-LR-L-55 as compared with Table I-2A of USPS-LR-K-55.

| SAS Name | Cost Pool                                  | BY 04-<br>BY 05<br>increase | Comment  |
|----------|--|-----------------------------|--|
| 1PRESORT | Presorted Mail                             | 169%                        | MOD 002 set as TACS base operation for LDC 17.   |
| MAILGRAM | Mailgram                                   | -18%                        | Declining volume for Mailgram product.   |
| REWRAP   | Damaged Parcel Rewrap                      | 24%                         | Increase in MOD 109 hours  |
| 1MISC    | Miscellaneous Activities (MODS Function 1) | 12%                         | Increase in MOD 083 (PARS Waste Mail) due to increased PARS volumes. Also increases in MOD 560-564 (Misc. Activity). |
| LD42     | Unit Distribution—Mechanized               | 103%                        | Redeployment of some UFSM 1000 equipment to smaller offices, including Function 4 facilities                         |
| LD48 EXP | Customer Service—Express Mail              | 118%                        | See note below.  |
| LD48 OTH | Customer Service—Other                     | 23%                         |  |

The costs for the LD48 EXP and LD48 OTH pools (and, by extension, the other LDC 48 pools) are affected by changes in MODS participation by customer service (Function 4) facilities. Overall LDC 48 costs from the pay data system are believed to be reliable, as workhour and cost data by LDC do not depend on MODS participation, but the base of MODS hours used to distribute the LDC costs to cost pool has become markedly smaller as Function 4 offices have ceased reporting MODS, raising the

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

question of whether remaining Function 4 facilities reporting MODS are fully representative. Thus, the Postal Service's recommended method assigns PO/Station/Branch mail processing to cost pools based on IOCS data, which are also independent of MODS participation, similar to the treatment of "non-MODS" post offices, stations, and branches in both the Commission and Postal Service methods.

4. Cost pools affected by the IOCS Redesign as summarized in USPS-T-11, page 6, item 5; also described in USPS-T-46, section II.C.1 and IV.B. This affects the PO/STA/BR and BMC cost pools which rely on IOCS activity information to assign costs to cost pools, all of which (except BMC NMO) show cost changes exceeding 10 percent.

RESPONSE OF POSTAL SERVICE WITNESS BOZZO  
TO POIR NO. 9, QUESTION 6

Attachment 1, Response to POIR No. 9, Question 6

Decomposition of Changes in Mail Processing Cost (as in Table 6, USPS-T-46), Using Commission Cost Methods

| Subclass                   | Cost Pool | Dist Key | Cost Level | Total Cost | Volume | Unit Cost | Unit Cost vs. Cost Level | Approximate Standard Difference* |
|----------------------------|-----------|----------|------------|------------|--------|-----------|--------------------------|----------------------------------|
| First-Class SngIPC         | -0.6%     | -3.8%    | 4.1%       | -0.5%      | -4.0%  | 3.6%      | -0.5%                    | -0.50                            |
| First-Class Presort        | 0.7%      | 6.8%     | 4.1%       | 11.9%      | 3.7%   | 8.0%      | 3.7%                     | 1.54                             |
| FCM SngIPC - CARD          | -1.7%     | -2.1%    | 4.1%       | 0.2%       | -0.2%  | 0.4%      | -3.6%                    | -0.74                            |
| FCM Presort - CARD         | -1.0%     | 20.2%    | 4.1%       | 23.9%      | 7.0%   | 15.8%     | 11.2%                    | 1.32                             |
| Priority                   | 3.0%      | 3.9%     | 4.1%       | 11.3%      | 4.6%   | 6.5%      | 2.3%                     | 1.17                             |
| Express                    | 14.3%     | 4.0%     | 4.1%       | 23.7%      | 2.5%   | 20.7%     | 15.9%                    | 4.16                             |
| Within-County Periodicals  | 0.0%      | 41.8%    | 4.1%       | 47.6%      | 0.3%   | 47.1%     | 41.3%                    | 2.52                             |
| Outside-County Periodicals | -2.2%     | 5.0%     | 4.1%       | 6.9%       | -0.8%  | 7.8%      | 3.5%                     | 1.60                             |
| Standard-ECR               | -4.5%     | 52.9%    | 4.1%       | 52.1%      | 6.1%   | 43.3%     | 37.7%                    | 10.99                            |
| Standard-Regular           | -1.2%     | -5.2%    | 4.1%       | -2.5%      | 5.4%   | -7.4%     | -11.0%                   | -8.79                            |
| Parcel Post                | 3.8%      | 8.6%     | 4.1%       | 17.3%      | 3.2%   | 13.6%     | 9.2%                     | 2.33                             |
| Bound Printed Matter       | 3.3%      | 1.4%     | 4.1%       | 9.0%       | 5.4%   | 3.4%      | -0.7%                    | -0.12                            |
| Media Mail                 | 6.2%      | -9.1%    | 4.1%       | 0.5%       | -4.3%  | 5.0%      | 0.9%                     | 0.14                             |
| International Mail         | -0.7%     | -4.4%    | 4.1%       | -1.2%      | 0.9%   | -2.1%     | -6.0%                    | -2.05                            |

\* "Unit Cost vs Cost Level" divided by the approximate CV.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 7

7. Please refer to USPS-LR-L-62, Appendix A, PARS08 BaseTabs.xls, UAA Baseline Cost Model Tables, PARS Environment, TY2008, Table 3.29, Derivation of UAA Mail in Mail Processing and Transportation Unit Costs. The return cost for machinable parcels is identified as zero. Please explain the rationale for this.

**RESPONSE:**

The unit cost for returned machinable parcels in Table 3.29 is intended to be blank not zero. According to USPS Handbook PO-441, *Rehandling of Mail Best Practices*, all returned-to-sender parcels are manually processed once they have been redirected from the originating delivery unit or CFS unit. Even returned machinable parcels are manually processed. The unit cost estimate reported in Table 3.29 is based on manual processing of both machinable and non-machinable returned parcels, meaning that it represents the average across both types of returned parcels. For forwarded parcels, separate unit costs are reported in the table because the mail processing practices for machinable parcels differ from those for non-machinable parcels. Please see Section 3.6 of USPS-LR-L-61 for more details.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 8

8. Please refer to USPS-LR-L-61, Appendix C, Tables, PrePARS OthTabs\_v.xls, Table 5.5, Direct Cost (1), Volume, and Unit Cost of UAA Other Mail By UAA Reason (2), Pre-PARS Environment, FY 04.
  - a. Please discuss why the “incorrect [address] number” costs for Priority Mail are high relative to other categories of mail, and when compared with other reasons for undeliverability of Priority Mail.
  - b. Please explain why USPS Penalty Mail exhibits a high “vacant” UAA figure (8.292 million pieces) relative to other categories of mail.
  - c. In USPS-LR-L-61, Appendix C, Tables, PrePARS OthTabs\_v.xls, Table 5.10, Total UAA Cost (1), Volume, and Unit Cost of UAA Packages Services Mail By UAA Reason (2), Pre-PARS Environment, FY 04, please explain why the cost for a missing apartment number on Media Mail is so high (\$9.63) as compared with other categories of mail.

**RESPONSE:**

- a. For each UAA reason, the unit cost estimates in Table 5.5 are aggregated over all mail shapes within a category. The measured volume mix over shape (as recorded in the Delivery Unit Route Survey of the 2004 UAA study) is a principal driver of the unit cost for any particular UAA reason. The unit cost for “incorrect number” is comparatively high because only parcel-shaped Priority Mail pieces were found in the mail stream associated with this UAA reason, most likely due to small sample size. On a per-unit basis, parcels are generally more costly to process than letters or flats. If Priority Mail letters or flats had been found in the mail stream associated with this UAA reason, the unit cost would have been lower because these shapes are generally less costly to process than parcels. This principle applies throughout all tables in USPS-LR-L-61 that report volumes and costs by UAA or PKR reason (i.e., Tables 5.1 – 5.12, 5.15 – 5.20).
- b. It is conceivable that a substantial portion of UAA pieces for this category would be based on vacant addresses. When an individual, family, or business submits

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 8

a change-of-address order, the Postal Service's National Customer Support Center sends a validation letter to the old address to help guard against fraud. These letters are sent as USPS Penalty Mail. The recipient portion in the address block of these letters contains two elements: "Current Resident Or" as well as the name of the individual, family, or business who submitted the order. In cases where an individual, family, or business has moved away but the old address is yet to be re-occupied (i.e., there is no current resident at the old address), the letters are marked as vacant and returned to the local CFS unit as UAA mail. These validation letters compose most of the USPS Penalty Mail vacant-address mail pieces recorded in the 2004 UAA study.

- c. As noted in the response to 8.a., volume mix over shape is a principal driver of the unit cost for any particular UAA reason. Because only parcel-shaped Media/Library pieces were found in the mail stream associated with this UAA reason (most likely due to small sample size), the unit cost is comparatively high. Final disposition is also an important factor. In Table 5.10, note the relatively low unit cost of processing BPM mail with a missing apartment number (\$0.060 per piece). USPS UAA regulations allow BPM mail to be wasted at the delivery unit, a relatively inexpensive process. In contrast, non-move related Media/Library mail must be returned to the sender (unless otherwise specified by the regulations associated with the ancillary service endorsement on the mail piece), which requires more costly processing steps (e.g., mail mark up activities, mail processing and transportation activities, and postage due activities).

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 9

9. The fraction of UAA and waste from certain types of mail in 2004 (as given in the Direct Testimony of Samuel Cutting (USPS-T-26, page 5, Table 1) has increased markedly since the 1998 data provided in the September 1999 PriceWaterhouseCoopers (PWC) UAA Study, page 12, Table 4.2 (submitted in R2000-1). For example:
- a. The Cutting testimony presents an overall weighted volume average of 6.4 percent for Standard UAA mail compared with a 2.48 percent UAA figure for Standard mail in 1998, from the 1999 PWC study. Please describe any known causes or explanations for the increase.
  - b. In 2004, 97.9 percent of UAA Standard mail was waste, according to the Cutting testimony, increased from the figure of 91.6 percent of UAA Standard A mail was waste, according to the PWC report, page 14, Table 4.3.3. Please explain.
  - c. The UAA rate for international mail in 2004 is 3.5 percent, up from 0.49 percent in the 1999 PWC study. Please explain any known causes or explanations for the large increase in the percentage of international mail that is undeliverable.

**RESPONSE:**

- a.-b. Because of differences in sampling protocols and inflation techniques, a direct comparison of Standard Mail volumes and percentages between the 1999 and 2004 UAA studies is not meaningful. That being said, the Standard Mail volumes from the 2004 study were carefully cross-checked as explained below.

First, there was evidence at the outset of the 2004 study that the UAA mail stream contained a high proportion of UAA Standard Mail waste. During the pre-survey field work at various delivery units, carriers and box clerks were observed processing many more pieces of waste mail relative to non-waste mail per route per day. Based on these observations, the sampling skip rate for waste mail (Form 5D) was set higher than for non-waste mail (Form 4D) in order to avoid inundating the sample with unendorsed Standard Mail.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 9

Next, the waste mail results of the 2004 UAA study were close to what was expected by experienced field personnel. Referring to the top panel of Table 2.2 in USPS-LR-L-61, the inflated amount of Standard Mail waste measured in the 2004 UAA study was 5.9 billion pieces. This translates to about 70 pieces of waste mail per route per delivery day (after adjusting P.O. box sections to route equivalents). Following the completion of the survey portion of the UAA study, an informal questionnaire was sent to the managers of the delivery units that participated in the UAA surveys asking for an estimate of the average amount of UAA waste mail processed per route per delivery day for all routes in the unit. The average response was about 76 pieces per route per delivery day, a value close to the weighted estimate from the UAA survey.

- c. Because of differences in sampling protocols and inflation techniques, a direct comparison of international mail volumes and percentages between the 1999 and 2004 UAA studies is not meaningful. That being said, it is important to note that the 2004 study followed standardized IOCS mail identification rules to determine the class, rate category, and other applicable characteristics of all sampled mail pieces, including international mail. Furthermore, photocopies were made of all sampled mail pieces and sent from each participating delivery unit to the offices of Christensen Associates. These photocopies were used to determine mail characteristics of the sampled pieces in a controlled environment where mail identification rules were applied consistently and accurately.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 10

10. Please refer to Tables 1 and 2 of the Cutting Testimony (USPS-T-26). Please also refer to USPS-LR-L-61, Table 5.13, Cost, Volume, and Unit Cost of UAA Mail By Ancillary Service Endorsements and Class (1), Pre-PARS Environment, FY 04. According to these tables, 95.6 billion pieces of Standard mail were sent in 2004. Of that number, according to Table 2, only a tiny fraction, 53.8 million pieces, had Return Service Requested ancillary service endorsement. Only 17.5 million pieces had Forwarding Service Requested ancillary endorsement. If these numbers are generally accurate, please explain how the total Return to Sender (RTS) figure for Standard mail was as high as 93.9 million, according to Table 1. Please explain how the total Forwarded figure was as high as 32.9 million, according to Table 1.

**RESPONSE:**

Standard Mail pieces containing the "Address Service Requested" ancillary service endorsement are included in the volumes for the forwarded and returned-to-sender dispositions reported in Table 1 of the Cutting testimony. Please refer to DMM 507.1.5.3 for a description of the Postal Service's treatment of Standard Mail bearing this endorsement.

Some Standard Mail pieces with no ancillary service endorsement are also included in the reported volumes for these dispositions. Examples of these pieces were identified during the Delivery Unit Route Survey of the 2004 UAA study. These pieces should have been wasted but were unintentionally directed from the carrier to the nixie unit for additional redirection processing. The mail flow assumptions in the UAA model allow for such misdirected pieces.

Finally, the reported volume for the returned-to-sender disposition contains a small number of pieces bearing an old or invalid ancillary service endorsement.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 11

11. Does the UAA cost model account for costs due to First-Class Mail that is misdelivered to the old address despite a proper forwarding order, and relabeled by the recipient/new occupant (or new business recipient) and returned to the mailstream for reprocessing and redelivery? Can you supply any data on the degree to which such “new occupant forwarding” occurs for a typical household move, and the presumptive costs such additional forwarding activity would incur?

**RESPONSE:**

Such First-Class Mail pieces are included in the sample of UAA mail. Generally, these pieces are marked up by the new occupant with “Please Forward” or a similar marking and returned to the carrier. The carrier typically directs these pieces to the CFS unit for redirection processing. Although such pieces are present in the sample, they have not been specifically isolated from other mail sent to the CFS unit. Hence, no specific cost or volume data are available for this type of UAA mail.

RESPONSE OF POSTAL SERVICE WITNESS CUTTING  
TO POIR NO. 9, QUESTION 12

12. Please refer to USPS-LR-L-62, at page 10, and Appendix A, PARS08 BaseTabs.xls, Tables 3.1 and 3.24. Please identify whether the cost model includes costs for the riffling/verifying function for non-PARS mail, since such costs are located in the CIOSS segment for PARS mail, and the CIOSS segment is omitted from non-PARS mail.

**RESPONSE:**

The UAA cost model described in USPS-LR-L-62 includes the cost for the riffling/verifying function for non-PARS mail pieces. The cost for this function is included in the nixie unit cost value for wasted mail as reported in the non-PARS section of Table 3.1. For more details about non-PARS nixie unit activities, please refer to the “all other letters” and “all other shapes” sections in Table 3.18 of USPS-LR-L-62.