

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF FILING CORRECTED COPY OF RESPONSE OF WITNESS SMITH TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 10, QUESTION 3
[ERRATA]
(August 18, 2006)

The United States Postal Service hereby provides notice that it is today filing a corrected copy of the response of witness Smith to Presiding Officer's Information Request No. 10, Question 3, filed on August 17, 2006. The header of the original response to Question 3 should have read "RESPONSE OF POSTAL SERVICE WITNESS SMITH TO POIR NO. 10, QUESTION 3" on both pages of the response. The attached copy contains the correct header and should replace the original response. No other changes have been made to the response to Question 3.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO POIR NO. 10, QUESTION 3
(Heading Revised August 18, 2006)

3. Please identify the source and verify the amount of \$124,054,000 for the FY05 Parcel Sorting Machine (PSM) cost pool as shown in tab PPSM&SPSM of both MPPGBY08PRC.xls in USPS-LR-L-98 and MPPGBY08.xls in USPS-LR-L-52. Please explain the rationale for using accrued costs instead of volume variable cost when calculating the PSM adjustment factor used to adjust Primary and Secondary PSM volume variable costs. Please provide a revised version of the aforementioned spreadsheets if deemed necessary.

RESPONSE:

The source for the \$124,054,000 for the FY05 PSM cost pool for both spreadsheets is Witness Van-Ty-Smith, USPS-T-11, Table 1. This is the accrued costs for both the USPS and PRC PSM mail processing labor cost pool (see also Witness Van-Ty-Smith, USPS-T-11, Table 5, which is the same as for the USPS cost, except for rounding).

Using accrued costs for the adjustment accounts for differences in the operations or activities included in the PSM labor cost processing cost pool as compared with the PSM operation used by witness Miller, USPS-T-21, in developing the PSM productivities. The primary PSM and Secondary PSM piggyback factors as initially developed (without the adjustment) are based on the PSM mail processing labor cost pool cost of \$124,054,000 for FY 2005. The PSM productivities are based on the MODS PSM operation, the cost of which was approximately \$177,712,139 in FY 2005. The difference is that the former only includes some of the support work for sweeping the PSM runouts and tying out the sacks, while the latter includes all of this support work. A piggyback factor appropriate for the PSM labor cost pool would be inappropriate for the labor costs associated with the PSM MODS operation, since it would overstate

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the amount of equipment and facility-related costs. The ratio, 1.43 (which is equal to $\$177,712,139/\$124,054,000$), applied in the adjustment is meant to expand the labor costs to be consistent with the MODS operation in order to get a more accurate piggyback factor.

This adjustment is required due to two changes made since Docket No. R2005-1. First, witness Miller, USPS-T-21, adopted MODS work hours for developing PSM productivities, as he discusses at pages 4-5 of his testimony. Second, IOCS redesign led to an expanded PSM cost pool, since some "Allied" cost pool activities related to the PSM were shifted to the PSM cost pool (see witness Bozzo, USPS-T-46, pages 30-31). In Docket No. R2005-1, the cost pool and the workhours used in the productivity were consistent in that both covered only the keying work. In R2006-1, both the cost pool and workhours used in the productivity calculation grew, but the latter grew more. As a result the adjustment is needed. The PSM piggyback factors for R2006-1 are lower than in Docket No. R2005-1 due to the broader labor cost base for the piggyback factors.