

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS SMITH, USPS-T-13, TO PRESIDING OFFICER'S INFORMATION  
REQUEST (POIR) NO. 16, QUESTION 1  
(November 2, 2006)

The United States Postal Service hereby provides a supplemental response of witness Smith (USPS-T-13) to Presiding Officer's Information Request (POIR) No. 16, issued September 28, 2006, and originally responded to on October 12, 2006. In the original response, witness Smith indicated: "Over the next several weeks we will be exploring the ODIS-RPW sample based volumes for First-Class single-piece permit imprint indicia to see if there is a significant divergence between the postage statements and sample based results. If so, this would indicate a significant inconsistency between costs and volumes, thereby indicating one should not rely on this unit cost." This supplemental response reports on that investigation.

The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **SUPPLEMENTAL RESPONSE OF POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 16, QUESTION 1**

1. In the response to POIR 10, Question 2, and POIR 14, Question 5, witness Smith provides flat and parcel Adjustment Ratios and Adjusted Unit Costs for Standard ECR and First-Class presort, respectively.

Please provide, for the base year and the test year, versions of USPS-LR-L-53 and USPS-LR-L-99 (revised July 6, 2006) that incorporate these adjustments and calculate adjusted unit costs by MODS cost pool for the affected categories of mail. Please be sure to adjust all appropriate factors (including the ratio of TY to BY volumes) and link them to their sources. Please also include unit mail processing costs by MODS pool for (1) First-Class single-piece metered flats, and (2) First-Class single-piece permit imprint parcels, developed and presented in the same manner as the costs of First-Class single-piece metered letters. Please show all calculations, identify all data sources, and explain all assumptions.

### **Supplemental Response:**

The October 12, 2006 response to this question indicated: "Over the next several weeks we will be exploring the ODIS-RPW sample based volumes for First-Class single-piece permit imprint indicia to see if there is a significant divergence between the postage statements and sample based results. If so, this would indicate a significant inconsistency between costs and volumes, thereby indicating one should not rely on this unit cost." This supplemental response reports on that investigation.

As discussed in my testimony, USPS-T-13, page 35, an indication of inconsistency can be obtained by comparing RPW by Shape Report data (from USPS LR-L-87) with ODIS-RPW sample based volumes. ODIS-RPW volume reporting by shape is consistent with the reporting of cost by shape, since both ODIS-RPW and IOCS are sample based and use the same methods to determine piece shape. The investigation shows that there is a potential divergence between the RPW (postage statements) and the ODIS-RPW (sample based) results for First-Class single-piece parcel/IPP permit imprint mail

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volumes, which suggests a potential inconsistency between costs and volumes for this mail.

USPS LR-L-87 indicates First-Class single-piece parcel/IPP permit imprint mail volumes of 176.149 million in FY 2005. This estimate is based on postage statements reporting 161.852 million pieces, with an additional 14.296 million pieces from ODIS-RPW sample based estimates for Business Reply Mail (BRM) and Merchandise Return Service (MRS). The ODIS-RPW sample-based estimate for the non-BRM, non-MRS First-Class single-piece parcel/IPP permit imprint mail volumes (controlled to RPW) is 140.325 million.<sup>1</sup> Thus the postage statement volumes of 161.852 million exceed the ODIS-RPW sample based volumes of 140.325 million by approximately 15 percent. This difference could suggest that the IOCS (sample based costs) are based on a smaller volume of mail than that indicated in the postage statements, and that the unit cost would be understated as a result.

Consequently, the test year First-Class single-piece parcel/IPP permit imprint unit costs of 55.6 cents reported in USPS-LR-L-184 and 60.3 cents in USPS-LR-L-185 are potentially understated. This is due to the potential inconsistency of volumes and costs reported in this supplemental response and

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<sup>1</sup> The ODIS-RPW sample based volume for First-Class single-piece parcel/IPP permit imprint mail, without controlling to RPW totals, is 155.698 million for FY 2005. The RPW-ODIS sample based volume for all First-Class Mail single-piece is 48,128.201 million for FY 2005. Using RPW-ODIS sample volumes as a distribution key for RPW First-Class single-piece volumes of 43,375.988 million, we have the following calculation:  $(155.698/48,128.201) \times 43,375.988 = 140.325$  million, representing the FY 2005 ODIS-RPW sample based volume for First-Class single-piece parcel/IPP permit imprint mail, controlled to RPW totals.

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the previously reported potential understatement of First-Class single-piece  
parcel/IPP permit imprint costs since IOCS does not provide indicia for all tallies.