

UNITED STATES OF AMERICA
Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Service Changes to Implement)
Functionally Equivalent Negotiated)
Service Agreement with Bradford Group)

Docket No. MC2007-4

OFFICE OF THE CONSUMER ADVOCATE INTERROGATORIES
TO UNITED STATES POSTAL SERVICE
WITNESS BRODERICK A. PARR
(OCA/USPS-T1-37-40)
(September 28, 2007)

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-T1-1-4, dated August 10, 2007, are hereby incorporated by reference.

Respectfully submitted,

Kenneth E. Richardson, Acting Director
Office of the Consumer Advocate

Emmett Rand Costich, Attorney

901 New York Avenue, N.W.
Washington, D.C. 20268-0001
(202) 789-6833; Fax (202) 789-6891
e-mail: costicher@prc.gov

OCA/USPS-T1-37. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats.

- a. Please confirm that all unit cost figures displayed in the electronic Excel file Table 2.Resp.OCA.23-26.xls are "hard entered;" that is, there are no calculations in any of the cells used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs. If you do not confirm, please explain.
- b. Please provide electronic workpapers that include all calculations used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs for all Standard Mail Regular and ECR rate categories shown in Table 2.Resp.OCA.23-26.xls. Provide citations to all sources used in the calculations.

OCA/USPS-T1-38. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. The notes to Table 2.Resp.OCA.23-26.xls state the following:

- 1- Changes were made to reflect [the] volume shift of Carrier route volume from ECR to Regular 5-digit Presort.
- 2- Adjustment[s] were made using special studies piggybacks instead of final adjustment piggybacks as referenced in in [sic] the sheet "piggy" in the FinAdj2008-PRC-PRCREM1.XLS

- a. Refer to note 1- above. Please provide all calculations in electronic form that resulted in the changes "made to reflect [the] volume shift of Carrier route volume

from ECR to Regular 5-digit Presort.” Provide citations to all sources used in the calculations.

b. Refer to note 2- above. Please provide the special studies referred to in note 2-

OCA/USPS-T1-39. Please refer to your response to OCA/USPS-T1-25, and the file “Table 2.Resp.OCA.23-26.xls,” which shows the development of total unit costs for Standard Mail letters and flats. In Table 2.Resp.OCA.23-26.xls, please refer to the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats. Also, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost.

a. Please provide all calculations in electronic form used to calculate the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats displayed Table 2.Resp.OCA.23-26.xls.

b. Please confirm that the mail processing unit cost, with “final adjustments,” calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, is \$0.1544. If you do not confirm, please explain and provide the correct unit cost figure.

c. Please explain why you did not use the mail processing unit cost, with “final adjustments,” of \$0.1544 calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, in calculating the “TYAR 2008 Total Unit Cost (Dollars)” of \$0.2914 for Automation 3/5-Digit Flats in Appendix A, page 6.

d. For Automation 3/5-Digit Flats, please confirm that the mail processing unit cost, with “final adjustments,” of \$0.1544 calculated by the Commission is a weighted average of the Adjusted Flats Mail Processing unit costs for Automation 3-Digit

- (\$0.20637) and 5-Digit (\$0.12532) flats, using the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats. If you do not confirm, please explain and provide the correct unit cost figure.
- e. Please confirm that the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats represents 31.88% (4,470,785,082 / 14,025,889,177) and 57.03% (7,998,429,444 / 14,025,889,177), respectively, of total Base Year flats volume. If you do not confirm, please explain and provide the correct figures.
- f. Please confirm that the Bradford Group's volume for Automation 3-Digit and 5-Digit flats represents 93.05% (17,706,190 / 19,029,457) and 5.13% (977,047 / 19,029,457), respectively, of the Bradford Group's total Nonautomation and Automation flats volume. If you do not confirm, please explain and provide the correct figures.
- g. Please confirm that using the Bradford Group's volume for Automation 3-Digit and 5-Digit flats as weights, the Bradford Group's mail processing unit costs, with "final adjustments," would be \$0.20757 ($(\$0.21193 * 17,706,190 + 977,047 * \$0.12870) / (17,706,190 + 977,047)$). See Excel file "OCA Exh2_FlatsCost-Adj" for calculations. If you do not confirm, please explain and provide the correct unit cost figure.

OCA/USPS-T1-40. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. Also, please refer to the following table entitled "OCA Exhibit 2, Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail

Processing Costs,” and the accompanying electronic Excel file “OCA Exh2_FlatsCost-Adj.” In addition, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost

OCA Exhibit 2

Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs

Mail Category	TYAR 2008	Mail Volume (Pieces)	Mail Volume (Percent)	Unit	Ratio	Total	Adj.
	Total Unit Cost (Dollars) (1)			Flat Cost w/Contingency (Dollars) (4)	Mail Proc Unit Costs (A)	Mail Proc Unit Cost (Dollars) (12)	Mail Proc Unit Cost (Dollars)
Nonautomation							
Mixed ADC	0.405	4,266	0.0%				
AADC	0.405	89,931	0.5%				
3-digit	0.305	223,475	1.2%				
5-digit	0.305	11,886	0.1%				
Automation							
Mixed ADC	0.399	1,194	0.0%				
AADC	0.399	15,468	0.1%				
3-digit	0.345	17,706,190	93.0%		1.0269	0.20637	\$0.21193
5-digit	0.262	977,047	5.1%		1.0269	0.12532	\$0.12870
Total/average	0.340	19,029,456	100.0%	\$ 0.344			

Standard Mail ECR Flat Unit Cost

Mail Category	TYAR 2008	Mail Volume (Pieces)	Mail Volume (Percent)	Unit
	Total Unit Cost (Dollars) (5)			Flat Cost w/Contingency (Dollars) (8)
Basic Nonletters	0.122	37,912,640	100.0%	
Total/Average	0.122	37,912,640	100.0%	\$ 0.123
			(9)	\$ 0.197

- a. In the table above, please confirm that the unit costs shown in column (1), “TYAR 2008 Total Unit Cost”, using the Commission-calculated mail processing unit costs, with “final adjustments,” are correct. If you do not confirm, please explain.
- b. Please confirm that the Bradford Group’s total unit flats cost should be \$0.197, rather than \$0.180, as shown in Appendix A, page 6, column (4), entitled “Unit [Flat] Cost w/Contingency (Dollars)”. If you do not confirm, please explain.

**OCA Exhibit 2
Bradford Group
Negotiated Service Agreement
Appendix A, page 1**

	Year 1	Year 2	Year 3
(1) Letter Inflation cost adjustment factor		2.06%	1.94%
Flat Inflation cost adjustment factor		2.06%	1.94%
(2) Contingency Factor	1.01		

- (1) Global Insight April 2007 Macro Forecast.
- (2) Docket No.R2006-1, USPS-T-6, p. 62.

**OCA Exhibit 2
Bradford Group
Negotiated Service Agreement
Appendix A, page 2**

FY 2004 FY 2005 FY 2006 Year 1 Year 2 Year 3

Volume calculations (1)	Forecast Volumes (2)					
Before Rates (BR)						
Standard Mail (SM) Letters	177,622,695	189,048,495	169,496,701	146,500,000	147,600,000	147,000,000
Standard Mail (SM) Flats	50,687,755	52,562,984	56,942,096	53,500,000	54,400,000	57,000,000
Total	228,310,450	241,611,479	226,438,797	200,000,000	202,000,000	204,000,000
After Rates (AR)						
SM Letters	177,622,695	189,048,495	169,496,701	168,000,000	167,000,000	167,000,000
SM Flats	50,687,755	52,562,984	56,942,096	58,000,000	58,000,000	60,000,000
Total	228,310,450	241,611,479	226,438,797	226,000,000	225,000,000	227,000,000

- (1) Bradford Group Billing Determinants (CBCIS)
- (2) Docket No. MC2007-3, Bradford T-2, p9

**OCA Exhibit 2
Bradford Group
Negotiated Service Agreement
Appendix A, page 3**

Standard Mail Regular Letter Unit Revenue

Mail Category	Revenue per piece (1)	Volume (2)	Revenue (3)
Auto Mixed AADC	\$ 0.206	2,612,557	\$ 539,232
Auto AADC	\$ 0.199	20,294,032	\$ 4,044,601
Auto 3-digit	\$ 0.189	139,788,663	\$ 26,420,057
Auto 5-digit	\$ 0.172	6,801,448	\$ 1,169,169
Total		169,496,701	\$ 32,173,059
Unit Revenue		(4)	\$ 0.190

- (1) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories, at R2006-1 prices (see Appendix B)
- (2) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix B)
- (3) (5) * (6)
- (4) Bradford Group Standard Mail Regular Letter Unit Revenue / Standard Mail Regular Letter Total Volume

Standard Mail Regular Letter Unit Cost

Mail Category	TYAR 2008 Total Unit Cost (Dollars) (1)	Mail Volume (Pieces) (3)	Mail Volume (Percent) (4)	Unit Letter Cost w/Contingency (Dollars) (5)
Auto Mixed AADC	0.120	2,612,557	1.5%	
Auto AADC	0.106	20,294,032	12.0%	
Auto 3-digit	0.100	139,788,663	82.5%	
Auto 5-digit	0.085	6,801,448	4.0%	
	(2)			
Total/average	0.101	169,496,701	100.0%	\$ 0.102

- (1) Postal rate Commission (PRC) PRC-LR-22 April 27 2007 (Changed to reflect volume shift of Carrier route volume from ECR to Regular 5-digit Pre FinAdj2008-PRC-PRCREM1 (Adjusted using full piggybacks instead of final adjustment piggyback.)
- (2) (1) * (4)
- (3) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix B)
- (4) Each row in (3) divided by total in (3)
- (5) Total Unit Cost (2) x Contingency Factor [Assumptions]

Standard Mail Regular Flat Unit Revenue

Mail Category	Revenue per piece (1)	Volume (2)	Revenue (3)
Nonautomation			
Mixed ADC	\$ 0.550	4,266	2,346
AADC	\$ 0.496	89,931	44,617
3-digit	\$ 0.417	223,475	93,185
5-digit	\$ 0.350	11,886	4,159
Automation			
Mixed ADC	\$ 0.476	1,194	569
AADC	\$ 0.426	15,468	6,582
3-digit	\$ 0.378	17,706,190	6,696,203
5-digit	\$ 0.319	977,047	311,964
Total		19,029,456	\$ 7,159,625
Unit Revenue			\$ 0.376

Standard Mail ECR Flat Unit Revenue

Mail Category	Revenue per piece	Volume	Revenue
Basic	\$ 0.231	37,912,640	8,760,220
Total		37,912,640	8,760,220
Unit Revenue			\$ 0.231
Average Unit Revenue		(4)	\$ 0.280

- (1) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories, at R2006-1 prices (see Appendix B)
- (2) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix B)
- (3) (1) * (2)
- (4) (Standard Mail Regular Non-letter Unit Revenue + Standard Mail ECR Non-letter Unit Revenue) / (Standard Mail Regular Non-letter Total Volume + Standard Mail ECR Non-letter Total Volume)

OCA Exhibit 2

Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs

Mail Category	TYAR 2008	Mail Volume (Pieces) (2)	Mail Volume (Percent) (3)	Unit	Ratio	Total	Adj.
	Total Unit Cost (Dollars) (1)			Flat Cost w/Contingency (Dollars) (4)	Mail Proc Unit Costs (Dollars) (A)	Mail Proc Unit Cost (Dollars) (12)	Mail Proc Unit Cost (Dollars)
Nonautomation							
Mixed ADC	0.405	4,266	0.0%				
AADC	0.405	89,931	0.5%				
3-digit	0.305	223,475	1.2%				
5-digit	0.305	11,886	0.1%				
Automation							
Mixed ADC	0.399	1,194	0.0%				
AADC	0.399	15,468	0.1%				
3-digit	0.345	17,706,190	93.0%		1.0269	0.20637	\$0.21193
5-digit	0.262	977,047	5.1%		1.0269	0.12532	\$0.12870
Total/average	0.340	19,029,456	100.0%	\$ 0.344			

Standard Mail ECR Flat Unit Cost

Mail Category	TYAR 2008	Mail Volume (Pieces) (6)	Mail Volume (Percent) (7)	Unit
	Total Unit Cost (Dollars) (5)			Flat Cost w/Contingency (Dollars) (8)
Basic Nonletters	0.122	37,912,640	100.0%	
Total/Average	0.122	37,912,640	100.0%	\$ 0.123
				(9) \$ 0.197

- (1) Table 2, Response to OCA/USPS-T1-23-26: (Total Costs, Table 2 - Mail Processing, Table 2) + Column (12)).
- (2) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix B)
- (3) Each row in (2) divided by total in (2)
- (4) Total Unit Cost (1) x Contingency Factor [Assumptions]
- (5) Postal rate Commission (PRC) PRC-LR-22 April 27 2007
(Changed to reflect volume shift of Carrier route volume from ECR to Regular 5-digit Presort)
FinAdj2008-PRC-PRCREM1 (Adjusted using full piggybacks instead of final adjustment piggyback.)
- (6) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix B)
- (7) Each row in (6) divided by total in (6)
- (8) Total Unit Cost (5) x Contingency Factor [Assumptions]
- (9) ((2)x(4) + (8)x(6)) / ((2) + (6))
- (A) Table 2, Response to OCA/USPS-T1-23-26, Cell D22; PRC-LR-15, Worksheet "CRA ADJ UNIT COSTS,"
Final Adjustment, Cell I20.
- (12) PRC-LR-15, Worksheet "CRA ADJ UNIT COSTS," column (12).

Agreement Structure

Year 1			Year 2			Year 3		
Threshold		Discount	Threshold		Discount	Threshold		Discount
147,000,000	157,000,000	\$ 0.015	147,000,000	157,000,000	\$ 0.015	147,000,000	157,000,000	\$ 0.015
157,000,001	167,000,000	\$ 0.020	157,000,001	167,000,000	\$ 0.020	157,000,001	167,000,000	\$ 0.020
167,000,001	177,000,000	\$ 0.025	167,000,001	177,000,000	\$ 0.025	167,000,001	177,000,000	\$ 0.025
177,000,001	183,000,000	\$ 0.030	177,000,001	183,000,000	\$ 0.030	177,000,001	183,000,000	\$ 0.030

Discount on volume above threshold

(1) Before Rates Forecast	146,500,000	147,600,000	147,000,000
(2) After Rates Forecast	168,000,000	167,000,000	167,000,000
(3) Discount in first tier	\$ 150,000	\$ 150,000	\$ 150,000
Discount in second tier	\$ 200,000	\$ 200,000	\$ 200,000
Discount in third tier	\$ 25,000	\$ -	\$ -
Discount in fourth tier	\$ -	\$ -	\$ -
(4) Discount Earned	\$ 375,000	\$ 350,000	\$ 350,000

Exposure on volume above threshold

(5) Threshold	147,000,000	147,000,000	147,000,000
(6) Before Rates Forecast	146,500,000	147,600,000	147,000,000
(7) Exposed Pieces	-	600,000	-
(8) After Rates Forecast	168,000,000	167,000,000	167,000,000
(9) Discount Exposure in first tier	\$ -	\$ 9,000	\$ -
Discount Exposure in second tier	\$ -	\$ -	\$ -
Discount Exposure in third tier	\$ -	\$ -	\$ -
Discount Exposure in fourth tier	\$ -	\$ -	\$ -
(10) Total Exposure	\$ -	\$ 9,000	\$ -

- (1) Before Rates Total Letter Volume [Vol]
- (2) After Rates Total Letter Volume [Vol]
- (3) Discount Earned on volume above negotiated threshold [see rate chart above]
- (4) Sum of discounts earned in first tier to fourth tier
- (5) Agreement Structure Beginning Threshold
- (6) (1)
- (7) If the Before Rates Forecast volume (6) is greater than the Threshold volume (5), then the total pieces represent the volume on which Discount Exposure occurs
- (8) (2)
- (9) Exposure on volume above negotiated threshold [see rate chart above]
- (10) Sum of Exposure in first tier to fourth tier

Agreement Structure

Year 1			Year 2			Year 3		
Threshold		Discount	Threshold		Discount	Threshold		Discount
53,500,001	55,500,000	\$ 0.010	54,500,000	56,500,000	\$ 0.010	57,000,000	59,000,000	\$ 0.010
55,500,001	57,500,000	\$ 0.012	56,500,001	58,500,000	\$ 0.012	59,000,001	61,000,000	\$ 0.012
57,500,001	59,500,000	\$ 0.015	58,500,001	60,500,000	\$ 0.015	61,000,001	63,000,000	\$ 0.015
59,500,001	61,500,000	\$ 0.020	60,500,001	62,500,000	\$ 0.020	63,000,001	65,000,000	\$ 0.020

Discount on volume above threshold

(1) Before Rates Forecast	53,500,000	54,400,000	57,000,000
(2) After Rates Forecast	58,000,000	58,000,000	60,000,000
(3) Discount in first tier	\$ 20,000	\$ 20,000	\$ 20,000
Discount in second tier	\$ 24,000	\$ 18,000	\$ 12,000
Discount in third tier	\$ 7,500	\$ -	\$ -
Discount in fourth tier	\$ -	\$ -	\$ -
(4) Discount Earned	\$ 51,500	\$ 38,000	\$ 32,000

Exposure on volume above threshold

(5) Threshold	53,500,000	54,500,000	57,000,000
(6) Before Rates Forecast	53,500,000	54,400,000	57,000,000
(7) Exposed Pieces	-	-	-
(8) After Rates Forecast	58,000,000	58,000,000	60,000,000
(9) Discount Exposure in first tier	\$ -	\$ -	\$ -
Discount Exposure in second tier	\$ -	\$ -	\$ -
Discount Exposure in third tier	\$ -	\$ -	\$ -
Discount Exposure in fourth tier	\$ -	\$ -	\$ -
(10) Total Exposure	\$ -	\$ -	\$ -

- (1) Before Rates Total Letter Volume [Vol]
- (2) After Rates Total Letter Volume [Vol]
- (3) Discount Earned on volume above negotiated threshold [see rate chart above]
- (4) Sum of discounts earned in first tier to fourth tier
- (5) Agreement Structure Beginning Threshold
- (6) (1)
- (7) If the Before Rates Forecast volume (6) is greater than the Threshold volume (5), then the total pieces represent the volume on which Discount Exposure occurs
- (8) (2)
- (9) Exposure on volume above negotiated threshold [see rate chart above]
- (10) Sum of Exposure in first tier to fourth tier

**OCA Exhibit 2
Bradford Group
Negotiated Service Agreement
Appendix A, page 9**

**Year 1 (7) (8)
Year 2 Year 3**

Standard Mail Letters

(1)	SM Letters Unit Revenue	0.190	0.194	0.197
(2)	SM Letters Unit Cost	0.102	0.104	0.106
(3)	SM Letters Unit Contribution	0.088	0.090	0.092

Standard Mail Non-letters

(4)	SM Non-letter Unit Revenue	0.280	0.285	0.291
(5)	SM Non-letter Unit Cost	0.197	0.201	0.205
(6)	SM Non-letter Unit Contribution	0.083	0.085	0.086

- (1) Bradford Group Average Unit Revenue [SML rev]
- (2) Bradford Group Average Unit Cost [SML cost]
- (3) (1) - (2)
- (4) Bradford Group Average Unit Revenue [SMF rev]
- (5) Bradford Group Average Unit Cost [SMF cost]
- (6) (4) - (5)
- (7) Year 1 * (1 + Inflation cost adjustment factor Year 2) [Assumpt]
- (8) Year 2 * (1 + Inflation cost adjustment factor Year 3) [Assumpt]

**OCA Exhibit 2
Bradford Group
Negotiated Service Agreement
Appendix A, page 10**

	Year 1	Year 2	Year 3	Total
(1) Contribution from new Standard Mail letters	\$ 1,892,316	\$ 1,742,660	\$ 1,831,409	\$ 5,466,385
(2) Contribution from new Standard Mail flats	\$ 373,112	\$ 304,639	\$ 258,791	\$ 936,541
(3) Total Exposure - Letters	\$ -	\$ 9,000	\$ -	\$ 9,000
(4) Total Incremental Discounts - Letters	\$ 375,000	\$ 341,000	\$ 350,000	\$ 1,066,000
(5) Total Exposure - Flats	\$ -	\$ -	\$ -	\$ -
(6) Total Incremental Discounts - Flats	\$ 51,500	\$ 38,000	\$ 32,000	\$ 121,500
(7) Total USPS Value	\$ 1,838,929	\$ 1,659,298	\$ 1,708,200	\$ 5,206,427

- (1) (AR Letter Volume - BR Letter Volume) [Vol] * Letters Unit Contribution [Contrib]
- (2) (AR Flat Volume - BR Flat Volume) [Vol] * Flats Unit Contribution [Contrib]
- (3) Total Exposure [Ltr d&e]
- (4) Total Discounts - Total Expososure [Ltr d&e]
- (5) Total Exposure [flt d&e]
- (6) Total Discounts - Total Expososure [flt d&e]
- (7) (1) + (2) - (3) - (4) - (5) - (6)