

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 INTERROGATORY
TO UNITED STATES POSTAL SERVICE
WITNESS BRODERICK A. PARR
(OCA/USPS -T1-43)
(November 26, 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 an interrogatory and request 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,

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OCA/USPS-T1-43. Please refer to your response to OCA/USPS-T1-41(b), where it states:

The net effect of this change for the scenarios proposed in OCA/USPS-T1-36 is to move the discounts paid to the customer from the "Incremental Discounts" line on the "Value" tab to the Exposure" line. The net value originally calculated by the OCA is correct, however.

Also, please refer to the following table from your response entitled "OCA Exhibit 1 - Corrected, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," which assumes the same before-rates and after-rates volumes, and the electronic Excel file "Appendix_A_Assumption__Changes."

Assumption Changes - Provided in Response to OCA/USPS-T1-41-42
OCA Exhibit 1 - Corrected
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

		After Rates Letter Volume						
Volumes (millions)		154.0	161.3	164.6	168.0	176.4	184.8	195.0
% Change		(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	154.0	5.1%	\$ 289,737					
	161.3	10.1%		\$ 159,137				
	164.6	12.4%			\$ 91,937			
	168.0	14.7%				\$ 19,737		
	176.4	20.4%					\$ (190,263)	
	184.8	26.1%						\$ (439,263)
	195.0	33.1%						

In addition, please refer to the following table entitled “OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors,” based upon a “Before Rates Letter Volume” of 146.5 million, and the accompanying electronic Excel file “OCA Exh1_App C_Analysis.”

**OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1**

		After Rates Letter Volume							
Volumes (millions)		154.0	161.3	164.6	168.0	176.4	184.8	195.0	
% Change		(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%	
Before Rates Letter Volume	146.5	0.0%	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)

- a. Please confirm that your table “OCA Exhibit 1 – Corrected” shows the value to the Postal Service of the Bradford Group NSA where changes in volume are caused by non-price factors. If you do not confirm, please explain.

- b. Please confirm that the value figures in the diagonal cells of your table “OCA Exhibit 1 – Corrected,” which assumes the Before Rates Letter Volume forecast and actual After Rates Letter Volume equal 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, are identical to the value figures in the table “OCA Exhibit 1,” which assumes a Before Rates Letter Volume forecast of 146.5 million and actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.

- c. Please confirm that a comparison of your electronic Excel file “Appendix_A_Assumption__Changes” and the electronic Excel file “OCA Exh1_App C_Analysis” shows that as a result of non-price factors, the value to the Postal Service in Year 1 of the Bradford Group NSA is the same for two reasons: 1) the absence of any contribution from new Standard Mail letters, and

- 2) an increase in total exposure for letters from \$0 to \$105,000, \$235,600, \$302,800, \$375,000, \$585,000, \$834,000, and \$1,140,000 if actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, respectively. If you do not confirm, please explain.
- d. Please confirm that a comparison of your table "OCA Exhibit 1 – Corrected" and table "OCA Exhibit 1" shows that the value to the Postal Service is the same regardless of the Before Rates Volume forecast. If you do not confirm, please explain.
- e. Please confirm that because the Year 1, \$0.015 discount threshold is set at 147 million, the Before Rates Volume forecast is irrelevant to the value of the Bradford Group NSA to the Postal Service. If you do not confirm, please explain.
- f. Please confirm that "OCA Exhibit 1" shows the change in net contribution to the Postal Service from the "payment" of discounts to the Bradford Group (or increase in "exposure" to the Postal Service) and the absence of "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.

**Bradford Group
Negotiated Service Agreement
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	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.

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	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

Assumed Actual After-Rates Letter Volume		
-8.33%	91.67%	154,000,000
-4.00%	96.00%	161,280,000
-2.00%	98.00%	164,640,000
0.00%	100.00%	168,000,000
5.00%	105.00%	176,400,000
10.00%	110.00%	184,800,000
16.07%	116.07%	195,000,000

**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)

Standard Mail Regular Flat Unit Cost

Mail Category	TYAR 2008 Total Unit Cost (Dollars) (1)	Mail Volume (Pieces) (2)	Mail Volume (Percent) (3)	Unit Letter Cost w/Contingency (Dollars) (4)
Nonautomation				
Mixed ADC	0.4047	4,266	0.0%	
AADC	0.4047	89,931	0.5%	
3-digit	0.3055	223,475	1.2%	
5-digit	0.3055	11,886	0.1%	
Automation				
Mixed ADC	0.3985	1,194	0.0%	
AADC	0.3985	15,468	0.1%	
3-digit	0.2914	17,706,190	93.0%	
5-digit	0.2914	977,047	5.1%	
Total/average	0.292	19,029,456	100.0%	\$ 0.295

Standard Mail ECR Flat Unit Cost

Mail Category	TYAR 2008 Total Unit Cost (Dollars) (5)	Mail Volume (Pieces) (6)	Mail Volume (Percent) (7)	Unit Letter 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)	\$ 0.180

- (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 Presort)
FinAdj2008-PRC-PRCREM1 (Adjusted using full piggybacks instead of final adjustment piggyback.)
- (2) Bradford Group Billing Determinants 4/2006-3/2007, adjusted to after-rates rate categories (see Appendix)
- (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)
- (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))

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
53,500,000	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

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	Year 1	Year 2	Year 3	Total
Assumed Actual After-Rates Letter Volume	168,000,000			
(1) Contribution from new Standard Mail letters	\$ -	\$ 1,742,660	\$ 1,831,409	\$ 3,574,069
(2) Contribution from new Standard Mail flats	\$ 446,237	\$ 364,343	\$ 309,510	\$ 1,120,090
(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	\$ 19,737	\$ 1,719,003	\$ 1,758,919	\$ 3,497,659

(1) Assumes NO increase in contribution because increase/decrease in Standard Mail letters is caused by non-price factors.

(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)

OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

		After Rates Letter Volume								
		154.0	161.3	164.6	168.0	176.4	184.8	195.0		
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%	
Before Rates Letter Volume	Volumes (millions)	146.5	0.0%	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)