

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BOOKSPAN

Docket No. MC2005-3

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides the responses of its witnesses to Presiding Officer's Information Request (POIR) No. 1, issued on July 26, 2005. Witness Plunkett is responding to question 1(c) and witness Yorgey is responding to questions 1(a), 1(b), 2, 3, 4(b), and 5. Answers to questions 4(a) and 4(c) are being provided by Bookspan.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999, Fax -5402
scott.l.reiter@usps.gov
August 9, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

1. Please refer to USPS-T-2, Section IV. A. (pages 7-10) which describes the Postal Service's evaluation of Bookspan's before rates Standard Mail volume forecasts as comparable to that performed in evaluating previous NSAs. Also please refer to the May 18, 2005 Revised Declaration of Michael K. Plunkett in support of the Postal Service's Reconsideration Memorandum in Docket No. MC2004-3.
 - a. Section C of his declaration, Plunkett states that the Postal Service extrapolates the mailer's volume history in a linear fashion into the future, generating separate trend analyses for subsets of volume, and (in the case of Bank One) running a simple regression to identify correlation between the categories of mail. In evaluating Bookspan's before rates Standard Mail volume forecast, did the Postal Service:
 - i. Develop any independent estimates of future before rates volumes using trend analysis? If so, please provide them, including supporting documents and electronic workpapers (e.g., Excel spreadsheets).
 - ii. Perform separate trend analysis for the subsets of Bookspan's mail (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
 - iii. Run any regressions to identify any correlation between different categories of Bookspan's mail volume (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
 - b. In Section D of his declaration, Plunkett describes the derivation of a demand function specific to marketing mail for Bank One based on economic variables. Did the Postal Service derive a demand function specific to Bookspan's mail volume based on economic variables? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.

RESPONSE:

- (a) (i) and (ii) I developed independent estimates of Bookspan's future before rates volumes using forecast trend analysis as demonstrated in Attachment 1. The analysis included a separate trend analysis for Bookspan's Standard Mail letter-size and flat-size volume and a combined trend analysis for the total solicitation Standard Mail volume. My analysis is shown in Attachment 1, which consists of three worksheets using forecast projections based on yearly, monthly, and quarterly volumes. The forecast ranges were based on specific data points, extracted from

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

CBCIS. The forecast ranges were developed for three distinct data sets using the Excel forecast function. These initial forecast ranges provided the framework to analyze projections provided by Bookspan. While the electronic worksheet presents an iteration of volume projections based on actual volume numbers, it is important to keep in mind that when this model is used in practice, the analysis is more dynamic. For example, FY 2004 was identified as atypical fairly early in the course of our discussions with Bookspan, because of the legislative change affecting telephone solicitation, as I mentioned in my testimony. Based on our discussions with Bookspan, I refined the analysis using different volume assumptions to make alternative forecasts. The worksheet is built to support multiple iterations based on discussions with customers, and looking at a single iteration is not an ideal representation of how this worksheet is used in practice.

It should also be noted that the type of analysis possible in the Bookspan case is necessarily different from what was possible in the Bank One case. When the Bank One agreement was consummated, the Postal Service had experience analyzing a number of different customers in the same industry, and had already acquired several years' worth of experience with credit card banks. Moreover, credit card banks are publicly traded companies. Consequently, there is a wealth of readily available information to support the analysis described in witness Plunkett's declaration. The Bookspan agreement was crafted for a privately held company occupying a unique niche in a different industry.. It would therefore have been impossible to perform as comprehensive analysis as described in the Bank One declaration.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(iii) No, I did not run a regression of the type described above.

b. The Postal Service did not independently derive a demand function of this type.

However, as stated in my testimony, consideration was given to the decline in the number book club memberships and the maturity of the book industry overall. As a result, the economic variables are likely to have less of an impact on the demand of marketing mail in the book club industry. Also, see my response to part a. The analysis described in that subpart constitutes one of the ways in which the Postal Service attempts to model customer specific demand when a dearth of empirical information makes a more formulaic approach impractical.

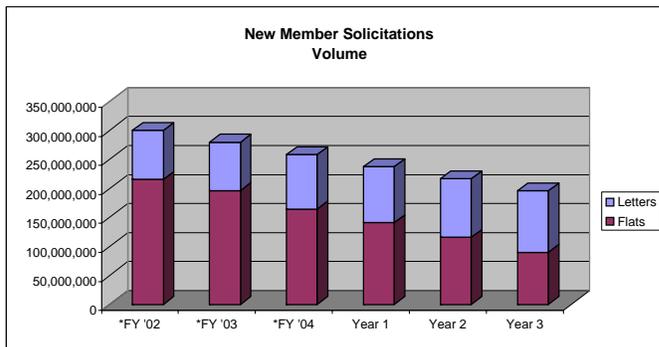
Response to POIR 1, Question 1.a.i and ii

New Membership Volume Forecast

Yearly Forecast

Fiscal Year	Flats	Letters	Total
*FY '02	1 215,324,921	84,694,802	300,019,723
*FY '03	2 196,631,597	82,991,923	279,623,520
*FY '04	3 164,378,427	94,014,756	258,393,183
Year 1	4 141,165,154	96,553,781	237,718,935
Year 2	5 115,691,907	101,213,758	216,905,665
Year 3	6 90,218,660	105,873,735	196,092,395

*Source: USPS CBCIS

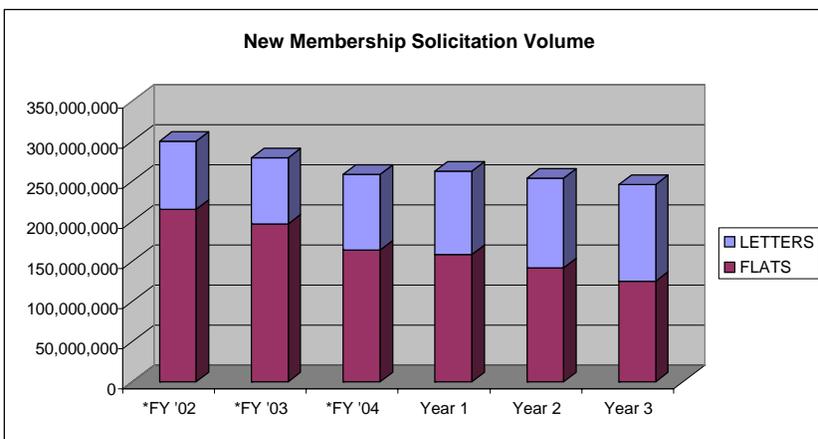


CM Std Letters	124,029,386	126,770,515	122,916,542	123,459,304	122,902,882	122,346,460
	1	2	3	4	5	6

Response to POIR 1, Question 1.a.i and ii
New Membership Volume Forecast
Quarterly Forecast

Fiscal Year	LETTERS	FLATS	Total
*FY '02	84,694,802	215,324,921	300,019,723
*FY '03	82,991,923	196,631,597	279,623,520
*FY '04	94,014,756	164,378,427	258,393,183
Year 1	103,779,318	158,773,599	262,552,917
Year 2	112,052,063	142,104,574	254,156,638
Year 3	120,324,808	125,435,550	245,760,358

*Source: USPS CBCIS

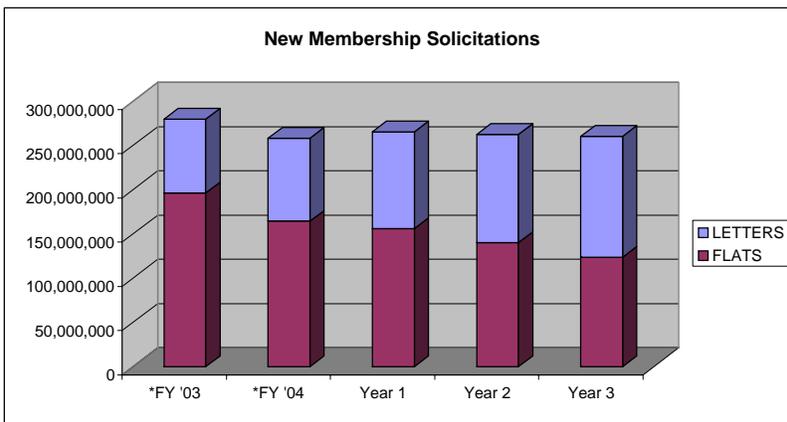


	Letters	YR TOT Flats	YR TOT
FY02 QTR1	1 23,688,539	66,679,405	
FY02 QTR2	2 12,428,951	23,073,338	
FY02 QTR3	3 28,059,975	81,618,701	
FY02 QTR4	4 20,517,337	84,694,802	215,324,921
FY03 QTR 1	5 11,885,652	23,587,176	
FY03 QTR2	6 32,116,852	78,809,981	
FY03 QTR 3	7 20,880,320	45,616,463	
FY03 QTR 4	8 18,109,099	82,991,923	196,631,597
FY04 QTR1	9 10,159,822	17,413,700	
FY04 QTR2	10 29,213,594	58,864,173	
FY04 QTR3	11 22,233,248	37,924,858	
FY04 QTR4	12 32,408,092	94,014,756	164,378,427
YR1 QTR1	13 25,169,260	41,256,121	
YR1 QTR2	14 25,686,306	40,214,307	
YR1 QTR3	15 26,203,353	39,172,493	
YR1 QTR4	16 26,720,399	103,779,318	158,773,599
YR2 QTR1	17 27,237,446	37,088,865	
YR2 QTR2	18 27,754,492	36,047,051	
YR2 QTR3	19 28,271,539	35,005,237	
YR2 QTR4	20 28,788,586	112,052,063	142,104,574
YR3 QTR1	21 29,305,632	32,921,609	
YR3 QTR2	22 29,822,679	31,879,794	
YR3 QTR3	23 30,339,725	30,837,980	
YR3 QTR4	24 30,856,772	120,324,808	125,435,550

Response to POIR 1, Question 1.a.i and ii
New Membership Volume Trend
Monthly Forecast

Fiscal Year	LETTERS	FLATS	Total
*FY '03	82,991,923	196,631,597	279,623,520
*FY '04	94,014,756	164,378,427	258,393,183
Year 1	109,121,685	156,188,019	265,309,704
Year 2	122,867,248	139,976,690	262,843,938
Year 3	136,612,812	123,765,361	260,378,173

*Source: USPS CBCIS



	Letters	YR TOT	Flats	YR TOT	QTR TOT	QTR TOT
OCT02	1	6,772,501		4,007,601		
NOV02	2	5,113,151		19,191,390		
DEC02	3	0		388,185	11,885,652	23,587,176
JAN03	4	22,814,618		54,549,079		
FEB03	5	7,023,189		5,917,750		
MAR03	6	2,279,045		18,343,152	32,116,852	78,809,981
APR03	7	13,312,678		25,938,537		
MAY03	8	2,125,740		14,499,001		
JUN03	9	5,441,902		5,178,925	20,880,320	45,616,463
JUL03	10	7,051,654		22,949,125		
AUG03	11	3,527,885		1,770,480		
SEP03	12	7,529,560	82,991,923	23,898,372	18,109,099	48,617,977
OCT03	13	5,257,416		15,395,080		
NOV03	14	4,902,406		311,930		
DEC03	15	0		1,706,690	10,159,822	17,413,700
JAN04	16	22,057,591		36,456,397		
FEB04	17	4,021,672		8,164,237		
MAR04	18	3,134,331		14,243,539	29,213,594	58,864,173
APR04	19	10,642,641		20,311,040		
MAY04	20	5,720,688		5,579,614		
JUN04	21	5,869,919		12,034,204	22,233,248	37,924,858
JUL04	22	12,752,837		30,052,705		
AUG04	23	408,886		1,071,284		
SEP04	24	19,246,369	94,014,756	19,051,707	164,378,427	32,408,092
	25	8,568,470		13,634,851		
	26	8,663,925		13,522,272		
	27	8,759,380		13,409,694		
	28	8,854,835		13,297,115		
	29	8,950,291		13,184,536		
	30	9,045,746		13,071,958		
	31	9,141,201		12,959,379		
	32	9,236,657		12,846,800		
	33	9,332,112		12,734,222		
	34	9,427,567		12,621,643		
	35	9,523,023		12,509,064		
	36	9,618,478	109,121,685	12,396,486	156,188,019	
	37	9,713,933		12,283,907		
	38	9,809,388		12,171,328		
	39	9,904,844		12,058,750		
	40	10,000,299		11,946,171		
	41	10,095,754		11,833,592		
	42	10,191,210		11,721,014		
	43	10,286,665		11,608,435		
	44	10,382,120		11,495,856		
	45	10,477,576		11,383,277		
	46	10,573,031		11,270,699		
	47	10,668,486		11,158,120		
	48	10,763,942	122,867,248	11,045,541	139,976,690	
	49	10,859,397		10,932,963		
	50	10,954,852		10,820,384		
	51	11,050,307		10,707,805		
	52	11,145,763		10,595,227		
	53	11,241,218		10,482,648		
	54	11,336,673		10,370,069		
	55	11,432,129		10,257,491		
	56	11,527,584		10,144,912		
	57	11,623,039		10,032,333		
	58	11,718,495		9,919,755		
	59	11,813,950		9,807,176		
	60	11,909,405	136,612,812	9,694,597	123,765,361	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

1. Please refer to USPS-T-2, Section IV. A. (pages 7-10) which describes the Postal Service's evaluation of Bookspan's before rates Standard Mail volume forecasts as comparable to that performed in evaluating previous NSAs. Also please refer to the May 18, 2005 Revised Declaration of Michael K. Plunkett in support of the Postal Service's Reconsideration Memorandum in Docket No. MC2004-3.
 - c. In Section E of his declaration, Plunkett describes the development of a demand function for total marketing mail based on the total number of accounts. Did the Postal Service derive a demand function specific to Bookspan's (or its industry's) mail volume based on the number of memberships (or a similar measure)? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.

RESPONSE:

1.c. No, a demand function specific to Bookspan's total marketing mail volume was not derived based on number of memberships or similar measures. When analyzing credit card banks – particularly those who use First-Class Mail for customer acquisition – it was important to isolate the factors that influenced the volume of mail used to solicit customers. In the Bank One case, the declining block rates offered to that customer segment were designed to stimulate growth in “marketing” volume as opposed to statement volumes, demand for which is generally regarded as inelastic. With Bookspan, the Postal Service expects that marketing volume would be positively correlated with growth (or decline) in the number of customers, as would generally appear to be true for most business mailers. However, witness Yorgey's analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan's mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

2. Refer to USPS-T-2, Appendix A, pages 4 and 6. Please provide electronic workpapers showing the development of the TYBR 2006 Total Unit Cost figures in columns 1 and 9 of each of these two tables.

RESPONSE:

Please see Attachment 2, which contains a color coded index that sources each input to calculate the development of the TYBR 2006 Total Unit Cost figures in columns 1 and 9.

Please also note that Attachment 2 can be used to update Appendix A of my testimony to include the latest revision of USPS-LR-K-67, which was modified after preparation of my testimony.

Response to POIR 1 , Question 2, Attachment 2

**TY06 Unit Costs (cents per piece)
Piggyback Factors Applied**

Standard Mail - Regular Rate

Shape and Preparation	(1) C/S 3.1 Clk/Mh Mail Proc	(2) C/S 3.2 Clk/Mh Window	(3) C/S 6.1 City Carrier In-Office	(4) C/S 6.2 City Carrier Support	(5) C/S 7.3 City Carrier Deliv Actv	(6) C/S 7.4 City Carrier Street Support	(7) C/S 8 Vehicle Service	(8) C/S 10 Rural Carriers	(9) Delivery Cost	(10) C/S 14 Air & Water	(11) C/S 14 Highway & Railroad	(12) Other	(13) Total
Nonauto Basic Presort Letters	17.407	0.094					0.065		5.410	0.022	0.322	0.138	23.459
Nonauto 3/5 Presort Letters	15.030	0.094					0.065		6.285	0.022	0.322	0.138	21.956
Auto Mixed AADC Presort Letters	4.660	0.094					0.065		4.104	0.022	0.322	0.138	9.406
Auto AADC Presort Letters	3.942	0.094					0.065		3.890	0.022	0.322	0.138	8.474
Auto 3-digit Presort letters	3.690	0.094					0.065		3.794	0.022	0.322	0.138	8.126
Auto 5-digit Presort letters	2.819	0.094					0.065		3.538	0.022	0.322	0.138	6.998
Nonauto Basic Flats	23.148	0.12	4.30	1.25	1.66	0.20	0.28	1.88		0.113	1.390	0.707	35.053
Nonauto 3/5 digit Flats	14.528	0.12	4.30	1.25	1.66	0.20	0.28	1.88		0.113	1.390	0.707	26.433
Auto Basic Flats	22.751	0.12	4.30	1.25	1.66	0.20	0.28	1.88		0.113	1.390	0.707	34.656
Auto 3/5 digit Flats	14.142	0.12	4.30	1.25	1.66	0.20	0.28	1.88		0.113	1.390	0.707	26.047

Standard Mail - Enhanced Carrier Route

Shape and Preparation	C/S 3.1 Clk/Mh Mail Proc	C/S 3.2 Clk/Mh Window	C/S 6.1 City Carrier In-Office	C/S 6.2 City Carrier Support	C/S 7.3 City Carrier Deliv Actv	C/S 7.4 City Carrier Street Support	C/S 8 Vehicle Service	C/S 10 Rural Carriers	Delivery Cost	C/S 14 Air & Water	C/S 14 Highway & Railroad	Other	Total
Auto Basic Letters	1.457	0.02					0.07		2.887	0.00	0.09	0.05	4.578
Basic Letters	3.776	0.02					0.07		5.334	0.00	0.09	0.05	9.344
Basic Flats	2.889	0.02					0.23		6.143	0.02	0.30	0.23	9.833

Sources:

(1) Cost Segment 3.1

For Standard Regular Letters: Docket No. R2005-1, USPS-LR-K-48, Revised 5/24/05, LR-K-48STDLETTERSRevisedV4.xls, Table 1, Tab Letter Sum, Total Mail Processing Unit Cost

For Standard Regular Flats: Docket No. R2005-1, USPS-T-19, Table 1

For ECR Letters and Flats: Docket No. R2005-1, USPS-LR-K-84, Table 1

(2), (3), (4), (5), (6), (7), (8), (10), (11) and (12): Docket No. R2005-1, USPS-LR-K-119, Table 1, Tab Unit Cost

(9) Delivery Costs represent a more disaggregated version of the data otherwise provided in (3), (4), (5), (6) and (8)

For Standard Regular Letters except for Nonauto 3/5 Presort Letters: Docket No. R2005-1, USPS-LR-K-67, Worksharing Related Delivery Unit Costs

For Standard Regular Nonauto 3/5 Presort Letters and ECR Letters and Flats: Docket No. R2005-1, USPS-LR-K-67, Worksharing Related Delivery Unit Costs, Revised 6/9/05

(13) Sum of (1) through (12)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

3. Please refer to USPS-T-2, Appendix A, pages 5 and 6. The calculation of Bookspan's average unit cost for non-letters assumes that for each category (presort level) Bookspan's unit cost is equal to the USPS average. In contrast, the calculation of Bookspan's average revenue per piece for non-letters utilizes unit revenues that, for each category (presort level), are below the USPS average. For example, both the USPS and Bookspan unit cost of Standard Regular Auto 3/5 Digit non-letters is 26.0 cents, whereas the USPS unit revenue for that category is 28.9 cents and the Bookspan unit revenue for that category is 23.9 cents. This implies that, while the Postal Service receives an average contribution of 2.9 cents (28.9 - 26.0) for Standard Regular Auto 3/5 Digit non-letters, it receives an average contribution of *negative* 2.1 cents (23.9 - 26.0) for mail in the same category sent by Bookspan.
 - a. Please discuss the rationale for assuming that the cost of Bookspan's non-letters for each presort level is equal to the average for the Postal Service, when Bookspan's revenue for each presort level is significantly lower than the average for the Postal Service.
 - b. Please provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for non-letters in column 1 of USPS-T-2, Appendix A, page 5.
 - c. Please also provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for letters in column 1 of USPS-T-2, Appendix A, page 3.

RESPONSE:

3.a. The Postal Service has not conducted an independent evaluation of the costs of Bookspan's specific mail. I have used the Postal Service's average cost as a fair representation of their costs. As in past NSAs, the Postal Service has used the Postal Service's average costs as fair representations of the mailer's costs in the absence of more detailed information which would indicate that adjustments to the postal average costs were warranted. However, more detailed information regarding Bookspan's revenue per piece figures at each presort, shape and automation category were available and were incorporated into my presentation. I do note that the information in Appendix A attempted to use the most disaggregated unit cost information available in the R2005-1 filing. By applying those unit costs to the Bookspan-specific billing

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

determinants, an attempt was made to indicate the difference in the weighted average unit costs for Bookspan relative to those for the entire set of Standard Mail users.

There are several reasons that the Bookspan average revenue per piece would be lower than that of the Postal Service average at each presort and automation category. Specifically with regard to non-letters, you will note in my Attachment 4 to subpart b of this question, all of Bookspan's nonletter pieces are mailed at the piece rate, which is to say that they weigh less than the breakpoint of 3.3 ounces. In contrast, examination of the FY 2004 Billing Determinants, filed as USPS-LR-K-77 in Docket No. R2005-1, shows that nationwide, only 48.98% of all 3-, 5-, and 3/5-digit Standard Regular nonletters are mailed at the piece rate. The same source shows that only 40.98% of Regular Standard Basic and AADC nonletters are mailed at the piece rate. Within Standard ECR, 49% of Basic ECR nonletters are mailed at the piece rate. Overall, 48.45% of all Standard Regular nonletters are mailed at the piece rate, and 55.29% of all Standard ECR nonletters are mailed at the piece rate.

Bookspan also has a different dropship profile than does the category of Standard Mail nonletters as a whole. As can be seen in the spreadsheets in the Attachment 3 to this response, in general, at every level of presort and for both letters and nonletters, Bookspan tends to utilize the dropship discounts more than do Standard Mail users on average. Specifically, with regard to the Standard Regular Auto 3/5-digit nonletters category in question, 47.24% of Bookspan's pieces are dropshipped to the Destination SCF; 46.94% of Bookspan's pieces are dropshipped to the Destination BMC; and only 5.82% of Bookspan's Standard Regular Auto 3/5-digit nonletters are not dropshipped. In contrast, nationwide, 32.62% of this type of nonletters from all mailers

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

are not dropshipped; 35.76% are dropshipped to the Destination BMC; and 31.62% are dropshipped to the Destination SCF.

To the extent that the rates applicable to pieces above and below the breakpoint and for differing levels of dropship activity reflect underlying cost differences, it is reasonable to assume that the fact that Bookspan's mail exhibits lower unit revenues than do the national averages, there are also lower costs that have not been adequately reflected in the unit costs that were used as proxies for Bookspan's unit costs.

- b. See Attachment 4, worksheet "Non-letters."
- c. See Attachment 4, worksheet "Letters."

Response to POIR 1, Question 3a, Attachment 3

Comparison of USPS and Bookspan Use of Dropship by Presort and Automation Categor

Standard Mail Regular Subclass

MAIL CATEGORY	Bookspan Pieces		USPS Pieces	
Non-Auto Basic Letters	1,518,805		793,501,993	
No Destination Entry	1,000,573	65.88%	594,876,060	74.97%
BMC Destination Entry	405,402	26.69%	146,280,755	18.43%
SCF Destination Entry	112,830	7.43%	43,849,673	5.53%
Non-Auto 3/5-digit Letters	58,859		1,065,186,190	
No Destination Entry	23,224	39.46%	591,966,548	55.57%
BMC Destination Entry	2,607	4.43%	82,737,138	7.77%
SCF Destination Entry	33,028	56.11%	390,482,504	36.66%
Auto Mixed AADC Letters	7,078,780		1,950,273,409	
No Destination Entry	6,088,744	86.01%	1,798,689,313	92.23%
BMC Destination Entry	990,036	13.99%	151,584,096	7.77%
Auto AADC Letters	12,572,357		2,201,484,140	
No Destination Entry	8,324,819	66.22%	1,688,474,686	76.70%
BMC Destination Entry	4,207,936	33.47%	475,483,799	21.60%
SCF Destination Entry	39,602	0.31%	37,525,655	1.70%
Auto 3-digit Letters	60,973,641		15,819,321,120	
No Destination Entry	4,263,380	6.99%	5,660,019,747	35.78%
BMC Destination Entry	47,074,520	77.20%	8,044,469,761	50.85%
SCF Destination Entry	9,635,741	15.80%	2,114,831,612	13.37%
Auto 5-digit Letters	4,830,798		16,402,050,918	
No Destination Entry	22,095	0.46%	2,989,052,573	18.22%
BMC Destination Entry	2,545,761	52.70%	4,517,924,224	27.54%
SCF Destination Entry	2,262,942	46.84%	8,895,074,121	54.23%
Standard Mail Enhanced Carrier Route Subclass				
Nonauto Basic Letters	5,575,871		2,144,903,041	
No Destination Entry	71,681	1.29%	347,310,009	16.19%
BMC Destination Entry	2,867,364	51.42%	366,328,298	17.08%
SCF Destination Entry	2,632,311	47.21%	1,290,134,838	60.15%
DDU Destination Entry	4,515	0.08%	141,129,896	6.58%
Auto Basic Letters	1,405,645		1,914,433,081	
No Destination Entry	50,986	3.63%	267,914,032	13.99%
BMC Destination Entry	695,098	49.45%	558,587,376	29.18%
SCF Destination Entry	659,561	46.92%	1,045,660,165	54.62%
DDU Destination Entry			42,271,508	2.21%

Sources:

Bookspan data from Attachment 4 provided in response to POIR1, Question 3c.

USPS data from USPS-LR-K-77, Docket No. R2005-1.

Response to POIR 1, Question 3a, Attachment 3
Comparison of USPS and Bookspan Use of Dropship by Presort and Automation Category

Standard Mail Regular Subclass

MAIL CATEGORY	Bookspan		USPS	
	<u>Pieces</u>		<u>Pieces</u>	
Basic Nonletters (piece-rated)	29,186		70,830,069	
No Destination Entry	27,821	95.32%	63,297,102	89.36%
BMC Destination Entry	1,365	4.68%	3,106,137	4.39%
DDU Destination Entry			4,426,830	6.25%
3/5-digit Nonletters (piece-rated)	1,367,428		110,008,407	
No Destination Entry	71,446	5.22%	45,469,106	41.33%
BMC Destination Entry	635,777	46.49%	18,338,336	16.67%
SCF Destination Entry	660,205	48.28%	46,200,965	42.00%
Basic Automation Nonletters (piece-rated)	167,112		147,767,711	
No Destination Entry	125,716	75.23%	141,819,699	95.97%
BMC Destination Entry	41,396	24.77%	5,139,348	3.48%
SCF Destination Entry			808,664	0.55%
3/5-digit Automation Nonletters (piece-rated)	97,096,345		5,341,337,519	
No Destination Entry	5,652,918	5.82%	1,742,480,892	32.62%
BMC Destination Entry	45,576,245	46.94%	1,909,942,121	35.76%
SCF Destination Entry	45,867,182	47.24%	1,688,914,506	31.62%
Standard Mail Enhanced Carrier Route Subclass				
Basic Nonletters (piece-rated)	65,718,356		5,584,834,978	
No Destination Entry	552,428	0.84%	321,202,641	5.75%
BMC Destination Entry	12,497,369	19.02%	825,995,384	14.79%
SCF Destination Entry	52,487,892	79.87%	4,331,440,513	77.56%
DDU Destination Entry	180,667	0.27%	106,196,440	1.90%

Sources:

Bookspan data from Attachment 4 provided in response to POIR1, Question 3b.
 USPS data from USPS-LR-K-77, Docket No. R2005-1.

**Response to POIR 1, Question 3.c., Attachment 4
Standard Mail Regular Subclass**

MAIL CATEGORY	<u>Revenue</u>	<u>Rev/pc</u>	<u>Pieces</u>
Non-Auto Basic Letters	398,179	0.262	1,518,805
No Destination Entry	270,344	0.270	1,000,573
BMC Destination Entry	100,420	0.248	405,402
SCF Destination Entry	27,415	0.243	112,830
Non-Auto 3/5-digit Letters	13,882	0.236	58,859
No Destination Entry	5,820	0.251	23,224
BMC Destination Entry	610	0.234	2,607
SCF Destination Entry	7,452	0.226	33,028
Auto Mixed AADC Letters	1,529,430	0.216	7,078,780
No Destination Entry	1,333,403	0.219	6,088,744
BMC Destination Entry	196,027	0.198	990,036
Auto AADC Letters	2,575,943	0.205	12,572,357
No Destination Entry	1,764,862	0.212	8,324,819
BMC Destination Entry	803,715	0.191	4,207,936
SCF Destination Entry	7,366	0.186	39,602
Auto 3-digit Letters	11,138,540	0.183	60,973,641
No Destination Entry	865,452	0.203	4,263,380
BMC Destination Entry	8,567,562	0.182	47,074,520
SCF Destination Entry	1,705,526	0.177	9,635,741
Auto 5-digit Letters	805,554	0.167	4,830,798
No Destination Entry	4,198	0.190	22,095
BMC Destination Entry	430,234	0.169	2,545,761
SCF Destination Entry	371,122	0.164	2,262,942
Standard Mail Enhanced Carrier Route Subclass			
Nonauto Basic Letters	952,919	0.171	5,575,871
No Destination Entry	13,906	0.194	71,681
BMC Destination Entry	496,054	0.173	2,867,364
SCF Destination Entry	442,228	0.168	2,632,311
DDU Destination Entry	731	0.162	4,515
Auto Basic Letters	208,620	0.148	1,405,645
No Destination Entry	8,719	0.171	50,986
BMC Destination Entry	104,265	0.150	695,098
SCF Destination Entry	95,636	0.145	659,561

Source: CBCIS revenue and volume, Bookspan FY2004

Response to POIR 1, Question 3.b., Attachment 4
Standard Mail Regular Subclass
Mail Categories

MAIL CATEGORY

	<u>Revenue</u>	<u>Rev/pc</u>	<u>Pieces</u>
Basic Nonletters (piece-rated)	10,917	0.374	29,186
No Destination Entry	10,425	0.375	27,821
BMC Destination Entry	492	0.360	1,365
3/5-digit Nonletters (piece-rated)	395,959	0.290	1,367,428
No Destination Entry	21,383	0.299	71,446
BMC Destination Entry	172,137	0.271	635,777
SCF Destination Entry	202,438	0.307	660,205
Basic Automation Nonletters (piece-rated)	49,264	0.295	167,112
No Destination Entry	37,715	0.300	125,716
BMC Destination Entry	11,550	0.279	41,396
3/5-digit Automation Nonletters (piece-rated)	23,192,500	0.239	97,096,345
No Destination Entry	1,475,412	0.261	5,652,918
BMC Destination Entry	10,938,299	0.240	45,576,245
SCF Destination Entry	10,778,790	0.235	45,867,182
Standard Mail Enhanced Carrier Route Subclass			
Basic Nonletters (piece-rated)	11,116,945.68	0.169	65,718,356
No Destination Entry	107,560	0.195	552,428
BMC Destination Entry	2,162,047	0.173	12,497,369
SCF Destination Entry	8,818,066	0.168	52,487,892
DDU Destination Entry	29,272	0.162	180,667

Source: CBCIS revenue and volume, Bookspan FY2004

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

4. Bookspan witness Epp states that the significant drop in the before rates volume forecast for the first year of the agreement is "primarily due to the anticipated 5.4% increase in postage rates." Bookspan-T-2, page 11, lines 12-13.
 - b. The unit costs and revenues utilized to estimate the financial impact of the agreement in Appendix A are from the (R2005-1) test year before rates and base year, respectively. They therefore reflect the set of rates currently in effect.
 - i. Please explain the rationale for applying unit costs and revenues that do not reflect the effects of implementing the R2005-1 proposal to volumes that do reflect the effects of the R2005-1 proposal.
 - ii. Please provide a version of Appendix A using unit costs and revenues that reflect the effects of implementing the R2005-1 proposed rates.

RESPONSE:

4.b.

- i. The rates proposed by the Postal Service in Docket No. R2005-1 were not applied to Bookspan volumes to develop revenue estimates in this case, as the Commission has not yet issued a recommended decision in Docket No. R2005-1. It is my understanding that it is not standard practice for the Postal Service to develop and provide Test Year After Rates unit costs at a disaggregated level (e.g., for particular shape and presort profiles) in omnibus rate cases because the rate design is performed with TYBR disaggregated unit costs. Thus, unit costs at the disaggregated levels that I used in my spreadsheets were not available for TYAR.
- ii. As I noted in my response to part (i) above, disaggregated unit costs are not available in Docket No. R2005-1 for TYAR. However, in Attachment 5 to this response, I have approximated TYAR disaggregated unit costs by taking the TYBR disaggregated unit costs originally filed with my testimony and multiplying

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

them by the ratio of the R2005-1 TYAR unit cost for the subclass level to the TYBR unit cost for the subclass level. Thus, the disaggregated unit costs are adjusted by the TYAR to TYBR ratio of unit costs for Standard Regular and Standard ECR as appropriate.

As I do not know exactly which rate elements Bookspan has utilized in their mailings and which contribute to the revenue per piece figures in my spreadsheets, I have proxied the TYAR revenues by adjusting the TYBR revenue per piece figures upward by 5.4%.

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 1

	FY 2006	FY 2007	FY 2008
(1) Inflation cost adjustment factor	4.0%	4.0%	4.0%
(2) Conversion of Standard Mail Flats to Standard Mail Letters	63.0%	63.3%	62.5%
(3) Contingency Factor	1.00		

(1) Docket No. MC2004-4/USPS-T-1, pg 13

(2) Docket No. MC2005-3, Bookspan T-2, p11

(3) Contingency provision of zero percent, Docket No.R2005-1, USPS-T-6, p. 18.

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 2

FY 2002

FY 2003

FY 2004

FY 2006

FY 2007

FY 2008

Volume calculations (1)	Forecast Volumes (2)					
Before Rates (BR)						
New Membership Std letter-size	84,694,802	82,991,923	94,014,756	78,000,000	75,000,000	75,000,000
New Membership Std Flat-size	215,324,921	196,631,597	164,378,427	137,000,000	129,000,000	130,000,000
Total	300,019,723	279,623,520	258,393,183	215,000,000	204,000,000	205,000,000
After Rates (AR)						
New Membership Std letter-size				105,000,000	105,000,000	107,000,000
New Membership Std Flat-size				120,000,000	110,000,000	110,000,000
Total				225,000,000	215,000,000	217,000,000

(1) CBCIS - FY 2002, 2003, 2004 volumes

(2) Docket No. MC2005-3, Bookspan T-2, p11

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 3

Standard Mail Regular Letter-size Revenue per piece

Mail Category	Bookspan average		
	Revenue per piece (1)	Volume (2)	Revenue (3)
Nonauto Basic	\$ 0.276	1,518,805	\$ 419,681
Nonauto 3/5-Digit	\$ 0.249	58,859	\$ 14,632
Auto Mixed AADC	\$ 0.228	7,078,780	\$ 1,612,019
Auto AADC	\$ 0.216	12,572,357	\$ 2,715,044
Auto 3-digit	\$ 0.193	60,973,641	\$ 11,740,021
Auto 5-digit	\$ 0.176	4,830,798	\$ 849,054
Total		87,033,240	\$ 17,350,451
Revenue per piece			\$ 0.199

USPS Totals		
Revenue per piece (5)	Volume (6)	Revenue (7)
\$ 0.282	809,733,939	\$ 228,302,910
\$ 0.253	697,779,976	\$ 176,622,450
\$ 0.229	2,217,147,820	\$ 507,949,803
\$ 0.218	2,496,325,308	\$ 544,698,956
\$ 0.199	17,989,964,662	\$ 3,580,750,695
\$ 0.179	19,265,167,055	\$ 3,454,279,546
	43,476,118,760	\$ 8,492,604,360
		\$ 0.195

Standard Mail ECR Letter-size Revenue per piece

Mail Category	Revenue per piece	Volume	Revenue
Nonauto Basic Letters	\$ 0.180	5,575,871	1,004,377
Auto Basic Letters	\$ 0.156	1,405,645	219,885
Total		6,981,516	1,224,262
Revenue per piece			\$ 0.175
Average Revenue per piece			\$ 0.198

Revenue per piece	Volume	Revenue
\$ 0.182	2,204,590,228	\$ 401,218,581
\$ 0.158	2,008,138,416	\$ 317,412,935
	4,212,728,644	\$ 718,631,516
		\$ 0.171
		\$ 0.193

(1) (3)/(2)

(2) CBCIS, Bookspan FY2004 volume

(3) CBCIS, Bookspan FY2004 revenue x 1.054

(4) $\text{Bookspan (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)}$

(5) Docket No. R2005-1, USPS-LR-K-77, FY2004 Standard Mail Regular Billing Determinants x 1.054

(6) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)

(7) (5) x (6)

(8) $\text{Average USPS (Standard Mail Regular Revenue + Standard Mail ECR Revenue) / (Standard Mail Regular Total Volume + Standard Mail ECR Total Volume)}$

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement
Appendix A, page 4

Standard Regular Unit Cost

	USPS			Bookspan			
	TYAR 2006 Total Unit Cost (Dollars) (1)	TYAR 2006 Mail Volume (Pieces) (2)	TYAR 2006 Mail Volume (Percent) (3)	TYAR 2006 Total Unit Cost (Dollars) (4)	FY 2004 Mail Volume (Pieces) (6)	FY 2004 Mail Volume (Percent) (7)	Company Avg. Letter Cost w/Contingency (Dollars) (8)
LETTERS							
Nonauto Basic	0.235	809,733,939	1.9%	0.235	1,518,805	1.7%	
Nonauto 3/5-Digit	0.220	697,778,977	1.6%	0.220	58,859	0.1%	
Auto Mixed AADC	0.094	2,217,147,820	5.1%	0.094	7,078,780	8.1%	
Auto AADC	0.085	2,496,325,308	5.7%	0.085	12,572,357	14.4%	
Auto 3-digit	0.081	17,989,964,663	41.4%	0.081	60,973,641	70.1%	
Auto 5-digit	0.070	19,265,167,056	44.3%	0.070	4,830,798	5.6%	
Total/average	0.082	43,476,117,763	100.0%	0.085	87,033,240	100.0%	\$ 0.085

Standard ECR Unit Cost

	USPS			Bookspan			
	TYAR 2006 Total Unit Cost (Dollars) (9)	TYAR 2006 Mail Volume (Pieces) (10)	TYAR 2006 Mail Volume (Percent) (11)	TYAR 2006 Total Unit Cost (Dollars) (12)	FY 2004 Mail Volume (Pieces) (14)	FY 2004 Mail Volume (Percent) (15)	Company Avg. Letter Cost w/Contingency (Dollars) (16)
LETTERS							
Nonauto Basic Letters	0.094	2,204,590,228	52.3%	0.094	5,575,871	79.9%	
Auto Basic Letters	0.046	2,008,138,417	47.7%	0.046	1,405,645	20.1%	
Total/Average	0.071	4,212,728,645	100.0%	0.084	6,981,516	100.0%	\$ 0.084

Bookspan Average Cost per piece

\$ 0.085

(17)

- (1) Docket No. R2005-1 (USPS-LR-K-48 as revised 05/20/05, USPS-LR-K-67, USPS-LR-K-119) x 1.001
- (2) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (3) Each row in (2) divided by total in (2)
- (4) (1)
- (5) (4) x (7) Bookspan weighted average
- (6) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 3)
- (7) Each row in (6) divided by total in (6)
- (8) Total Unit Cost (5) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (9) Docket No. R2005-1 (USPS-LR-K-67, USPS-LR-K-84, USPS-LR-K-119) x 1.001
- (10) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (11) Each row in (10) divided by total in (10)
- (12) (9)
- (13) (12) x (15) Bookspan weighted average
- (14) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 3)
- (15) Each row in (14) divided by total in (14)
- (16) Total Unit Cost (13) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (17) ((8)x(6) + (16)x(14)) / ((6) + (14))

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 5

Standard Mail Regular Non-letter Revenue per piece

Mail Category	Bookspan average		
	Revenue per piece (1)	Volume (2)	Revenue (3)
Nonauto Basic	\$ 0.394	29,186	11,507
Nonauto 3/5 Digit	\$ 0.305	1,367,428	417,340
Auto Basic	\$ 0.311	167,112	51,925
Auto 3/5 Digit	\$ 0.252	97,096,345	24,444,895
Total		98,660,071	\$ 24,925,667
Revenue per piece			\$ 0.253

USPS Totals			
Revenue per piece (5)	Volume (6)	Revenue (7)	
\$ 0.564	443,471,958	250,098,265	
\$ 0.525	925,540,123	486,049,690	
\$ 0.404	414,714,247	167,486,565	
\$ 0.305	11,218,794,042	3,422,548,091	
	13,002,520,370	\$ 4,326,182,610	
		\$ 0.333	

Standard Mail ECR Non-letter Revenue per piece

Mail Category	Revenue per piece	Volume	Revenue
Basic Non-letter	\$ 0.178	65,718,356	11,717,261
Total		65,718,356	\$ 11,717,261
Revenue per piece			\$ 0.178
Average Revenue per piece			\$ 0.223

Revenue per piece	Volume	Revenue
\$ 0.209	12,224,335,151	2,550,302,235
	12,224,335,151	\$ 2,550,302,235
		\$ 0.209
		\$ 0.273

(4)

(8)

- (1) (3)/(2)
- (2) CBCIS, Bookspan FY2004 volume
- (3) CBCIS, Bookspan FY2004 revenue x 1.054
- (4) $\text{Bookspan} = \frac{\text{Standard Mail Regular Revenue} + \text{Standard Mail ECR Revenue}}{\text{Standard Mail Regular Total Volume} + \text{Standard Mail ECR Total Volume}}$
- (5) Docket No. R2005-1, USPS-LR-K-77, FY2004 Standard Mail Regular Billing Determinants x 1.054
- (6) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (7) (5) x (6)
- (8) $\text{USPS Average Revenue per piece} = \frac{\text{Standard Mail Regular Revenue} + \text{Standard Mail ECR Revenue}}{\text{Standard Mail Regular Total Volume} + \text{Standard Mail ECR Total Volume}}$

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement
Appendix A, page 6

Standard Regular Unit Cost

	USPS			Bookspan			
	TYAR 2006 Total Unit Cost (Dollars) (1)	TYAR 2006 Mail Volume (Pieces) (2)	TYAR 2006 Mail Volume (Percent) (3)	TYAR 2006 Total Unit Cost (Dollars) (4)	FY 2004 Mail Volume (Pieces) (6)	FY 2004 Mail Volume (Percent) (7)	Company Avg. Letter Cost w/Contingency (Dollars) (8)
NON-LETTERS							
Nonauto Basic	0.351	443,471,958,026	3.4%	0.351	29,186	0.0%	
Nonauto 3/5 Digit	0.265	925,540,123,464	7.1%	0.265	1,367,428	1.4%	
Auto Basic	0.347	414,714,246,537	3.2%	0.347	167,112	0.2%	
Auto 3/5 Digit	0.261	11,218,794,042,215	86.3%	0.261	97,096,345	98.4%	
				(5)			
Total/Average	0.267	13,002,520,370	100.0%	0.261	98,660,071	100.0%	\$ 0.261

Standard ECR Unit Cost

	USPS			Bookspan			
	TYAR 2006 Total Unit Cost (Dollars) (9)	TYAR 2006 Mail Volume (Pieces) (10)	TYAR 2006 Mail Volume (Percent) (11)	TYAR 2006 Total Unit Cost (Dollars) (12)	FY 2004 Mail Volume (Pieces) (14)	FY 2004 Mail Volume (Percent) (15)	Company Avg. Letter Cost w/Contingency (Dollars) (16)
NON-LETTERS							
Basic Non-Letters	0.098	12,224,335,151	100.0%	0.098	65,718,356	100.0%	
				(13)			
Total/Average	0.098	12,224,335,151	100.0%	0.098	65,718,356	100.0%	\$ 0.098

Bookspan Average Cost per piece

\$ 0.196

(17)

- (1) Docket No. R2005-1 (USPS-LR-K-58, USPS-LR-K-67, USPS-LR-K-119) x 1.001
- (2) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (3) Each row in (2) divided by total in (2)
- (4) (1)
- (5) (4) x (6) Bookspan weighted average
- (6) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 5)
- (7) Each row in (6) divided by total in (6)
- (8) Total Unit Cost (5) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (9) Docket No. R2005-1 (USPS-LR-K-67, USPS-LR-K-84, USPS-LR-K-119) x 1.001
- (10) Docket No. R2005-1 (USPS-T-7, Attachment A, pg. 7)
- (11) Each row in (10) divided by total in (10)
- (12) (9)
- (13) (12) x (15) Bookspan weighted average
- (14) CBCIS, Bookspan FY2004 volume (Appendix A, pg. 5)
- (15) Each row in (14) divided by total in (14)
- (16) Total Unit Cost (13) x Contingency Factor Assumption (Appendix A, pg. 1, (3))
- (17) ((8)x(6) + (16)x(14)) / ((6) + (14))

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 7

Agreement Structure

FY2006			FY2007			FY2008		
Threshold		Discount	Threshold		Discount	Threshold		Discount
87,000,001	120,000,000	\$ 0.020	85,000,001	110,000,000	\$ 0.020	94,000,001	100,000,000	\$ 0.010
120,000,001	150,000,000	\$ 0.030	110,000,001	150,000,000	\$ 0.030	100,000,001	120,000,000	\$ 0.020
						120,000,001	150,000,000	\$ 0.030

Discount on volume above threshold

(1) Before Rates Forecast	78,000,000	75,000,000	75,000,000
(2) After Rates Forecast	105,000,000	105,000,000	107,000,000
(3) Discount in first tier	\$ 360,000	\$ 400,000	\$ 60,000
Discount in second tier	\$ -	\$ -	\$ 140,000
Discount in third tier		\$ -	\$ -
(4) Discount Earned	\$ 360,000	\$ 400,000	\$ 200,000

Exposure on volume above threshold

(5) Threshold	87,000,001	85,000,001	94,000,001
(6) Before Rates Forecast	78,000,000	75,000,000	75,000,000
(7) Exposed Pieces	-	-	-
(8) After Rates Forecast	105,000,000	105,000,000	107,000,000
(9) Discount Exposure in first tier	\$ -	\$ -	\$ -
Discount Exposure in second tier	\$ -	\$ -	\$ -
Discount Exposure in third tier			\$ -
(10) Total Exposure	\$ -	\$ -	\$ -

(1) Before Rates Total Volume (Appendix A, pg. 2)

(2) After Rates Total Volume (Appendix A, pg. 2)

(3) Discount Earned per discount tier based on rate chart above.

(4) Sum of discounts earned in first tier to fifth 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) If the Before Rates Forecast volume (6) is greater than the Threshold volume (5), then the Discount Exposure represents the discount X the volume per discount tier.

(10) Sum of Exposure in first tier to third tier

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 8

	(7)	(8)
FY2006	FY2007	FY2008

Standard Mail Letters

(1) Standard letters Revenue per Piece	0.198	0.198	0.198
(2) Standard letters Cost per Piece	0.085	0.088	0.092
(3) Standard letters Contribution per Piece	0.113	0.109	0.106

Standard Mail Non-letters

(4) Standard Non-letter Revenue per Piece	0.223	0.223	0.223
(5) Standard Non-letter Cost per Piece	0.196	0.204	0.212
(6) Standard Non-letter Contribution per Piece	0.027	0.019	0.011

- (1) Average Revenue per Piece (Appendix A, pg. 3, (4))
- (2) Average Cost per Piece (Appendix A, pg. 4, (17))
- (3) (1) - (2)
- (4) Average Revenue per Piece (Appendix A, pg. 5, (4))
- (5) Average Cost per Piece (Appendix A, pg. 6, (17))
- (6) (4) - (5)
- (7) Year 1 * Inflation cost adjustment factor Year 2 (Appendix A, pg. 1, (1))
- (8) Year 2 * Inflation cost adjustment factor Year 3 (Appendix A, pg. 1, (1))

Bookspan - Response to POIR1, Question 4.b.ii, Attachment 5

Negotiated Service Agreement

Appendix A, page 9

	FY2006	FY2007	FY2008	Total
(1) Contribution from new Standard letter mail	\$ 1,126,242	\$ 1,201,489	\$ 1,268,310	3,596,042
(2) Contribution from Standard non-letter mail converted to Standard letter mail	\$ 1,455,982	\$ 1,711,628	\$ 1,894,059	5,061,669
(3) Total New Contribution	\$ 2,582,224	\$ 2,913,117	\$ 3,162,368	8,657,710
(4) Total Discount Exposure	\$ -	\$ -	\$ -	-
(5) Total Incremental Discounts	\$ 360,000	\$ 400,000	\$ 200,000	960,000
(6) Total USPS Value	\$ 2,222,224	\$ 2,513,117	\$ 2,962,368	\$ 7,697,710

- (1) (Assumption (2), (Appendix A, pg. 1)) X (Volume Before Discount (Appendix A, pg. 2) - Volume After Discount (Appendix A, pg. 2))
X (Contribution Standard letter mail (3), (Appendix A, pg. 8) - Contribution Standard non-letter mail (6),(Appendix A, pg. 8)
- (2) 1minus Assumption (2), (Appendix A, pg. 1) X (Volume After Discount (Appendix A, pg. 2) - Volume After Discount (Appendix A, pg. 2))
X Contribution Standard letter mail (Appendix A, pg. 8)
- (3) Sum of (1) + (2)
- (4) Total Discount Exposure (10)(Appendix A, pg. 7)
- (5) Discount Earned (4) (Appendix A, pg. 7)
- (6) (3) - (4) - (5)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YORGEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

5. Please refer to USPS-T-2, Appendix A, page 9. Line 5 (Total Incremental Discounts) refers to line 4 of page 7 (Discount Earned) – an amount that includes discounts on both incremental volume and before rates volume. Please confirm that line 5 (Total Incremental Discounts) should be set equal to line 4 of page 7 minus line 10 of page 7 (Total Exposure).

RESPONSE:

To clarify, line 5 on page 9 (Total Incremental Discount) is equal to line 4, page 7 (Discount Earned). Line 6 (Total USPS Value) on page 9 provides the calculation of line 3 (Total New Contribution) minus line 4 (Total Exposure) minus line 5 (Total Incremental Discount).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
August 9, 2005