

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO  
INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION (PSA/USPS-T13-6-9)  
(June 19, 2006)

The United States Postal Service hereby provides the responses of Witness Smith (USPS-T-13) to the following interrogatories of Parcel Shippers Association: PSA/USPS-T13-6-9, filed on June 5, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF POSTAL SERVICE WITNESS MARC A. SMITH TO  
INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION  
PSA/USPS-T13-6**

**PSA/USPS-T13-6.** Please refer to your response to PSA/USPS-T13-2 where you state, “A second suggested approach involved dividing Standard Regular parcel costs between those parcels with Postnet 9 or 11-digit barcodes and those without. The Postnet 9 or 11-digit barcode was to be an indicator of automation flats preparation and costing such pieces as flats, with the remainder as parcels. The impact of this approach was a 35.7% reduction in the parcel unit costs based on FY 2000 IOCS data. It was determined that the Postnet 9 or 11-digit barcodes on parcels was not a good indicator for automation flats preparation, so this was dropped.”

(a) Please explain why the Postal Service believes that the presence of “Postnet 9 or 11-digit barcodes on parcels was not a good indicator for automation flats preparation.”

(b) Please explain how “[i]t was determined that the Postnet 9 or 11-digit barcodes on parcels was not a good indicator for automation flats preparation.”

(c) Please confirm that reducing the parcel unit cost by 35.7% would produce a Test Year unit mail processing cost for Standard Regular parcels of 50 cents per piece. If not confirmed, please provide the correct figure.

**Response:**

a-b. A brief examination of Postnet barcodes as an indicator of automation flats rate preparation showed that Postnet 9 or 11-digit barcodes could be found on Standard Regular parcels (thicker than 1 ¼ inch) and also on some Package Services mail pieces such as Parcel Post, even though Postnet barcodes are not used in parcel sorting by either the Postal Service or mailers. Some mailers may be including Postnet 9 or 11-digit barcodes on the address labels for all their Standard Regular parcels, whether or not such pieces are prepared for automation flats rates. It appears that some mailers are using the same database that produces the correspondence address blocks, including the Postnet barcode, to print the parcel address labels. Such mailers do not suppress the Postnet barcode when using the database to produce the parcel labels. As a

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result, the presence of a Postnet 9 or 11-digit barcode was believed/determined to be insufficient or unreliable as an indicator of automation flats rate preparation.

It should also be noted that the 35.7 percent cost share for the Standard Regular parcels with Postnet barcodes based on FY 2000 IOCS, contrasts with the apparently low share of Standard Regular parcels prepared as automation flats rates for that year. This low share can be shown using FY2000 volume data which corresponds to volume data used for the Standard Regular flats-parcel cost adjustment for FY 2005. As reported in my Attachment 13, for FY 2005, the ratio of Standard Regular parcel volumes from RPW by Shape Report data (from USPS LR-L-87) to the Standard Regular parcel volumes from ODIS-RPW sample based system is 76.6 percent, indicating a 23.4 percent volume share for pieces prepared as automation flats rated. In FY 2000, this same ratio was 89.9 percent, indicating a 10.1 percent volume share for Standard Regular parcel shaped pieces that were prepared as automation flats.

- c. I can confirm that if one were to reduce the unadjusted test year Standard Regular Parcel unit cost of 77.84 cents reported in my Attachment 13 by 35.7 percent, it would equal 50.05 cents. However, I reject such an approach since as indicated in my response to parts a-b, the presence of a Postnet 9 or 11-digit barcode is not a reliable indicator of automation flats rate preparation.

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PSA/USPS-T13-7**

**PSA/USPS-T13-7.** Please refer to your response to PSA/USPS-T13-2 where you state, "I also looked into using data from a new question from the revised IOCS (Question number Q23A2). The new question was intended to allow for identification of parcel shaped pieces that were 3/4th to 1 1/4th inch thick. An examination of this data suggested the need for a better understanding of this data before utilizing it."

(a) Please explain what the Postal Service found in its "examination of this data" that "suggested the need for a better understanding of this data before utilizing it."

(b) Please explain how the Postal Service planned to use the new question to perform the Standard Regular flat-parcel cost adjustment.

(c) If the Q23A2 data had been utilized to perform the Standard Regular flat-parcel cost adjustment, how large would the adjustment have been?

**Response:**

- a. There was a concern that data collectors were misinterpreting the new question. As a result, this question was revised at the beginning of the third quarter of FY 2005. The two versions of this question are shown in the Attachment to this response. Options C and E were modified to be more accurate and complete. The result of this change led to a large increase in the C responses and a large decline in the E responses. As a result more analysis of this data is needed before trying to use it.
- b. We would have modified the definition of the activity codes Standard Regular flats and parcels to shift responses to Q23A2 options D and E from parcels to flats. This would redefine the way shape is determined; see the current definition at LR-L-9, Appendix B, part 2, page B-35, section 6.0A. These results would need to be incorporated by witness Van-Ty-Smith, USPS-T-11, into LR-L-55, part III to get the flats and parcels costs by cost pool.

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- c. We have not done the calculations envisioned in part b, but the tallies themselves may give some indication. Based on data for quarters 1 and 2, there would be a 31 percent reduction. Based on data for quarters 3 and 4 there would be an 9 percent reduction. The tallies for the whole year would indicate a 19 percent reduction. These percentages are not based on a full development of the costs as discussed in part b, and only are an indication of using IOCS dollar weighted tallies for clerks and mailhandlers.

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**Question Q23A2 for FY 2005, Q1 and Q2 VS. FY 2005 Q3 and Q4  
Options C and E Modified**

**FY 2005, Q1 and Q2**

**Q23A2 IPP/Parcel Characteristics**      **—————▶**

*Does the IPP or Parcel have any of the following characteristics? (Choose the FIRST applicable option.)*

- A Roll/Tube less than or equal 26" in Length
- B Non-Uniform Thickness and/or Non-Rectangular Shape
- C Length less than 6" or Height less than 3" or Thickness less than 1/4"
- D "USPS (FSM) 1000 Approved Poly(wrap)" on piece
- E Length less than or equal to 13" and Height less than or equal to 12" and Thickness less than or equal to 1 1/4"
- F None of the Above

Source: USPS LR-L-21, F-45 Handbook, page 8-8.

**FY 2005, Q3 and Q4**

**Q23A2 IPP/Parcel Characteristics**      **—————▶**

*Does the IPP or Parcel have any of the following characteristics? (Choose the FIRST applicable option.)*

- A Roll/Tube less than or equal 26" in Length
- B Non-Uniform Thickness and/or Non-Rectangular Shape
- C Small Package (Length less than 6" **OR** Height less than 3" **OR** Thickness less than 1/4")
- D "USPS (FSM) 1000 Approved Poly(wrap)" on piece
- E Oversized "Flat" (Length less than or equal to 13" **AND** Height less than or equal to 12" **AND** Thickness less than or equal to 1 1/4")
- F None of the Above

Source: USPS LR-L-9, Appendix H.

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PSA/USPS-T13-8**

**PSA/USPS-T13-8.** Please refer to your response to PSA/USPS-T13-2 where you discuss “suggestions on doing the adjustment differently” and the adjustment that would have resulted from each. Would you agree that performing the Standard Regular Flat-Parcel Cost Adjustment is an inexact science that increases the uncertainty in the Standard Regular parcel unit cost estimate? Please explain your response fully.

**Response:**

No, I don't agree that the Standard Regular Flat-Parcel Adjustment is an inexact science or that it increases the uncertainty on Standard Regular parcel unit cost estimate.

As I indicate at page 34 of my testimony, the need for the adjustment stems from an inconsistency between cost and volume data. As I indicate at pages 34-35, and in my calculations in Attachment 13 (and LR-L-53), I use the ratio of Standard Regular parcel volumes from RPW by Shape Report data (from USPS LR-L-87) to the Standard Regular parcel volumes from sample based ODIS-RPW. This ratio of volumes, which is the ratio of Standard Regular parcel rated volumes to Standard Regular parcel shaped volume, is used to proxy the ratio of costs for these two groups of pieces. That assumes that the cost per piece is the same for flats rated Standard Regular parcels as for the parcel rated. Clearly, this is an approximation, which could be refined, but it provides an acceptable basis for reconciliation. The other alternatives discussed in my response to PSA/USPS-T13-2 are not viable for the reasons I gave in that response as well as my responses to PSA/USPS-T13-6 and PSA/USPS-T13-7.

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PSA/USPS-T13-9**

**PSA/USPS-T13-9.** Please refer to Attachment 14 of your testimony and your response to PSA/USPS-T13-1(c)-(e) where you state that the unit costs for First-Class Mail Presort parcels, Standard Mail ECR parcels, and Periodicals Outside County parcels appear “to be anomalous” and that you “do not know why [the units costs are] so large.” Please also refer to the approximate CVs for mail processing provided by Witness Czigler in response to PSA/USPS-T13-1(b) and the attachment you provided in your response to PSA/USPS-T13-3.

(a) Please confirm that, given the CVs provided by witness Czigler, the anomalously large unit costs for parcels in the three subclasses identified in PSA/USPS-T13-1(c)-(e) are very unlikely to be entirely due to sampling error. If not confirmed, please explain fully.

(b) Please confirm that the anomalously large unit costs for parcels for the three subclasses identified in PSA/USPS-T13-1(c)-(e) are likely due to inconsistencies in the definition of a parcel in different Postal Service statistical systems. Please explain your response fully.

(c) Ignoring the Standard Regular Flat-Parcel cost adjustment, please confirm that the same method and statistical systems were used to develop all of the unit cost figures for parcels shown in Attachment 14 of your testimony. If not confirmed, please explain fully.

(d) Do you believe that the underlying cause of the anomalous results for First-Class Mail Presort parcels, Standard Mail ECR parcels, and Periodicals Outside County parcels may have also infected the other unit cost estimates for parcels in Attachment 14 of you testimony? If not, can you rule out this possibility? Please explain your response fully.

(e) Taking into account your response to subpart (d) of this interrogatory, do you believe that rate design witnesses should use the parcel unit costs from Attachment 14 of your testimony as rough approximations only? Please explain your response fully.

(f) Did anyone advise witnesses Taufique and Kiefer that they should use the parcel unit costs from Attachment 14 of your testimony as rough approximations only? Please explain your response fully.

(g) In your opinion, is it appropriate to use the anomalous First-Class Presort parcel unit cost at all in designing First-Class Mail rates? Please explain your response fully.

**Response:**

- a. Confirmed.
- b. I can not confirm, since I have not studied these cost anomalies.
- c. I can confirm that I use the same calculations and data sources for all the parcel unit costs. In particular all the volumes used to compute unit costs

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- are from RPW by Shape Report data (LR-L-87). However, as discussed in LR-L-87, volumes by shape are developed somewhat differently for different subclasses, with differing degrees of reliance on the ODIS-RPW statistical sampling system and PostalOne! postage statement data.
- d. As indicated in my response in part b, I have not studied the cost anomalies for these three subclasses, so I can not say to what degree such anomalies would apply to other subclasses. The volume data provided in my response to PSA/USPS-T13-3 do, however, show that the large differences observed for First-Class presort, Periodicals and Standard ECR on the share of parcel volumes from RPW by Shape Report data (from USPS LR-L-87) versus ODIS-RPW sample based data, do not occur for the other subclasses. I can not conclude, therefore, that the cost estimates for these subclasses reflect the same influence that results in the anomalies noted in the other categories.
- e. I do not have an opinion concerning the use of these costs in rate design.
- f. I did not give witnesses Taufique and Kiefer advice that "they should use parcel unit costs from Attachment 14 of my testimony as rough approximations only." I can not say what advice they may have received from others.
- g. I do not have an opinion concerning the use of these costs in rate design.

## CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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