

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T22-1; 2 B, C, E, F; 3-4; 5 A, B, E; 6 A, B, D; 7-14; 16; 17; 19-26)

The United States Postal Service hereby files the responses of Witness Abdirahman to the above-listed interrogatories, filed on June 19, 2006 and due on July 3, 2006. The following interrogatories or parts have been redirected: Interrogatory part 2A to witness Smith; Interrogatories 2D and 18 to witness Bozzo; Interrogatory parts 5 C-D and 6 C to witness Loetscher; and Interrogatory 15 to the Postal Service.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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MMA/USPS-T22-1

On page 6 of your testimony you refer to various cost pools that for purposes of your study are either “proportional” or “fixed”. You define the “proportional” cost pools as those being reflected by your mail flow models and the “fixed” cost pools as costs that are “beyond the scope of your model.” Please confirm that the “fixed” cost pools that are beyond the scope of your model reflect costs that do not vary with the level to which mail is presorted. If you cannot confirm, please explain.

RESPONSE:

Not confirmed. The “fixed” cost pools represent tasks that have not actually been modeled. I do not model all costs of mail processing operations. Each cost pool is classified as either “proportional” or “fixed”. The cost pool classifications are based on the operations/tasks mapped to given cost pool, as described in USPS-LR-L-55. The “proportional” cost pools contain the costs for tasks that I have actually modeled. The “fixed” cost pools represent tasks that I have not modeled.

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MMA/USPS-T22-2

On page 6 of your testimony you discuss the problem associated with separating Nonautomation and Automation letter costs within the in-office cost system. To solve this problem you have obtained combined the costs from the CRA and used the mail flow models as the basis to de-average the CRA costs into Nonautomation and Automation costs. You also indicate that separate costs for Nonautomation and automation letters are no longer available to you.

- A. Has the postal service officially combined Nonautomation and Automation costs within the in-office cost system? If so, please provide the date when this change took place. If not, please provide the unit costs separately for Nonautomation and Automation letters as determined by the CRA data system.
- B. Please confirm that you show the total unit cost to process an average First-Class presorted letter (Nonautomation and Automation combined) and an average Standard presorted letter (Nonautomation and Automation combined) as 4.59 cents and 4.06 cents, respectively, for TY 2008 in this case. (See USPS-LR-L-48, pages 3 and 45) If not, please provide the correct total unit costs.
- C. Please confirm that in R2005-1, you showed that the total unit cost to process an average First-Class and Standard presorted letter (Nonautomation and Automation combined) for TY 2006 was 4.12 and 4.34 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures

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	(1)	(2)	(3)	(4)
Rate Category	R2005-1 CRA TY Unit Cost (\$)	Associated Volume (000)	Total Cost (\$ 000) (1) x (3)	Combined Unit Cost (\$) (3) / (2)
First-Class:				
Nonautomation	0.1897	1,949,367	369,707	
Automation (No Car Rt)	0.0350	43,841,671	1,534,799	
Carrier Route	0.0186	718,203	13,352	
Presorted		46,509,242	1,917,859	0.0412
Standard:				
Nonautomation	0.1626	3,517,027	571,957	
Automation	0.0340	44,600,687	1,515,895	
Presorted		48,318,487	2,087,853	0.0434

Source: USPS-LR-K-53

- D. Please explain why the total unit cost to process presorted First-Class letters was **lower** by 0.22 cents than the total unit cost to process presorted Standard mail for the test year in R2005-1, but **higher** by 0.53 cents for the test year in R2006-1. Tom
- E. Please confirm that, for First-Class presorted letters, the total unit processing cost is expected to increase by 11.4% (4.59/4.12 -1.00) between the R2005-1 test year (2006) and the R2006-1 test year (2008). If not, please provide the correct percentage increase. Confirm
- F. Please confirm that, for Standard presorted letters, the total unit processing cost is expected to decrease by 6.5% (4.06/4.34 -1.00)

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between the R2005-1 test year (2006) and the R2006-1 test year (2008).
If not, please provide the correct percentage increase. Confirm.

RESPONSE to MMA-T22-2:

- A. Redirected to witness Smith (USPS-T-13)
- B. Confirmed.
- C. Confirmed.
- D. Redirected to witness Bozzo (USPS-T-12)
- E. Confirmed.
- F. Confirmed.

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MMA/USPS-T22-3

Please refer to Library Reference USPS-LR-L-48, pages 3 and 45, where you divide the CRA unit cost pools for presorted letters between “proportional” and “fixed” for First-Class and Standard presorted letters.

- A. Please confirm that you have defined “proportional” cost pools in exactly the same manner as you did in R2005-1. That is, if you deemed a cost pool to be “proportional” in R2005-1, you deem that same cost pool to be “proportional” in this case. If you cannot confirm, please explain any differences and why those changes were made.
- B. Please confirm that you show the “proportional” unit cost to process an average First-Class presorted letter (Nonautomation and Automation combined) and an average Standard presorted letter (Nonautomation and Automation combined) as 2.80 cents and 2.40 cents, respectively, for TY 2008 in this case. (See USPS-LR-L-48, pages 3 and 45) If not, please provide the correct “proportional” unit costs.
- C. Please confirm that in R2005-1, your data showed that the “proportional” unit costs to process an average First-Class and an average Standard presorted letter (Nonautomation and Automation combined) for TY 2006 were 2.26 and 2.26 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures.

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	(1)	(2)	(3)	(4)
Rate Category	R2005-1 "Proportional" TY Unit Cost (\$)	Associated Volume (000)	Total "Proportional" Cost (\$ 000) (1) x (3)	Combined "Proportional" Unit Cost (\$) (3) / (2)
First-Class:				
Nonautomation	0.1078	1,949,367	210,193	
Automation	0.0189	44,559,875	840,404	
Presorted		46,509,242	1,050,597	0.0226
Standard:				
Nonautomation	0.0901	3,494,388	314,930	
Automation	0.0174	44,824,099	779,437	
Presorted		48,318,487	1,094,366	0.0226

Source: USPS-LR-K-48 Page 6, 20, 61, 62 52, 89

D. Please confirm that in R2005-1, had you defined worksharing related proportional cost pools in the exact same manner as you define "proportional" in R2006-1, then the "proportional" unit costs to process an average First-Class presorted letter and an average Standard presorted letter (Nonautomation and Automation combined) for TY 2006 would have been 2.41 and 2.53 cents, respectively, as derived in the following table. If you cannot confirm, please provide the correct unit cost figures. (Note that in order to coincide with your cost categories for this case there were several necessary changes. For First-Class Automation letters, the costs for the following pools have been switched from "workshare-related fixed" to "proportional:" 1OPBULK, 1OPPREF, and 1POUCHING. For First-Class Nonautomation, the costs for 1PRESORT have been switched from "workshare-related proportional" to "fixed". For Standard Automation, the following cost pools have been switched from "workshare-related fixed" to

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“proportional:” SPBS OTH, 1OPBULK, 1OPREF, 1POUCHING and SPB. In addition the cost pool SPBSPRIO has been switched from “nonworkshare-related fixed” to “proportional” for both Standard Automation and Nonautomation).

	(1)	(2)	(3)	(4)
Rate Category	R2005-1 "Proportional" TY Unit Cost (\$)	Associated Volume (000)	Total "Proportional" Cost (\$ 000) (1) x (3)	Combined "Proportional" Unit Cost (\$ (3) / (2)
First-Class:				
Nonautomation	0.1073	1,949,367	209,139	
Automation (No Car Rt)	0.0206	43,841,671	904,673	
Carrier Route	0.0106	718,203	7,616	
Presorted		46,509,242	1,121,428	0.0241
Standard:				
Nonautomation	0.0903	3,517,027	317,446	
Automation	0.0202	44,600,687	901,480	
Presorted		48,117,714	1,218,925	0.0253

Source: USPS-LR-K-53

- E. Please confirm that the “proportional” unit processing cost of First-Class presorted letters is expected to increase by 16.2% (2.80/2.41-1.00) between the 2006 test year in R2005-1 and the 2008 test year R2006-1. If not, please provide the correct percentage increase and show how you derived it.
- F. Please confirm that the “proportional” unit processing cost of Standard presorted letters is expected to decrease by 5.1% (2.40/2.53-1.00) between the 2006 test year in R2005-1 and the 2008 test year R2006-1. If not, please provide the correct percentage increase and show how you derived it.

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G. Please explain why cost pools SPBS OTH, SPBSPRIO and SPB are proportional for Standard presorted letters but fixed for First-Class presorted letters, as defined by you in R2006-1.

RESPONSE to MMA-T22-3:

A. Confirmed.

B. Confirmed.

C. Confirmed.

D. Confirmed.

E. Confirmed.

F. Confirmed.

G. MODS SPBS OTH cost pool contains the cost related to Small Parcel and Bundle sorter (SPBS) bundle sorting operations at MODS facilities. The SPBS is not typically used to process First-Class Mail Letter bundles. It is, however, used to process Standard letter bundles.

MODS SPBSPRIO cost pool contains the cost related to Small Parcel and Bundle sorter (SPBS) priority mail sorting operations at MODS facilities. The SPBSPRIO is not typically used to process First Class Mail letters. Please refer to the response to MMA/USPS-T-22-21 (B)

The BMCS SP cost pool contains the costs related to SPBS operations at BMCs. First Class Mail is not processed at BMCs. The SPBS is used to process Standard Mail bundles at BMCs and therefore this cost pool was included in the Standard Mail model.

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MMA/USPS-T22-4

Please refer to Library Reference USPS-LR-L-48, page 3 where you compute the CRA unit costs to process First Class Presorted letters, page 45, where you compute the CRA unit costs to process Standard Presorted letters, and Library Reference USPS-LR-L-53, the source for your cost pool data.

- A. Please confirm that, if you define cost pools in the exact same manner as you do for First-Class Presorted letters, the test year 2008 total unit cost and proportional unit cost for First-Class single piece letters are 12.02 cents and 7.66 cents, respectively. If you cannot confirm, please provide the correct total unit cost and proportional unit cost for First-Class single piece letters.
- B. Please confirm that, if you define cost pools in the exact same manner as you do for First-Class Presorted letters in R2006-1, the total unit cost and proportional unit cost for First-Class single piece letters in the 2006 test year in R2005-1 would be 11.42 cents and 7.16 cents, respectively. If you cannot confirm, please provide the correct total and proportional unit cost for First-Class single piece letters.
- C. Please confirm the unit costs and expected increases as shown in the table below. If not, please make any necessary corrections.

Letter Rate Category	Total Unit Cost			"Proportional" Unit Cost		
	TY 2006 R2005-1	TY 2008 R2006-1	Percent Increase	TY 2006 R2005-1	TY 2008 R2006-1	Percent Increase
Single Piece	11.42	12.02	5.3%	7.16	7.66	7.0%
Presorted	4.12	4.59	11.4%	2.41	2.80	16.2%
Standard Presorted	4.34	4.06	-6.5%	2.53	2.40	-5.1%

- D. Please confirm that the total unit cost of processing First-Class Presorted letters is expected to increase at more than twice the rate of Single Piece letters (11.4% compared to 5.3%) between the 2006 test year in R2005-1 and the 2008 test year in R2006-1. If you cannot confirm, please explain.
- E. Please confirm that the “proportional” unit cost of processing First-Class Presorted letters is expected to increase at more than twice the rate of Single Piece letters (16.2% compared to 7.0%). If you cannot confirm, please explain.
- F. Please confirm that, while the total and proportional unit costs for First-Class single piece and presorted letters are expected to rise between TY 2006 and TY 2008, such costs are expected to decline for Standard presorted letters, as shown in the table to part (C). If you cannot confirm, please explain.

RESPONSE to MMA/USPS-T22-4:

- A. Not confirmed. I can confirm that if one uses the USPS-LR-L-48 First-Class Presort cost pool classifications and the First-Class Presort model but with the CRA cost for First-Class single piece letters, the test year 2008 total unit cost is 12.02 cents and the proportional unit cost that results is 7.66 cents.
- B. Not confirmed. I can confirm that if one uses the USPS-LR-K-48 First-Class Presort cost pool classifications and the First-Class Presort model but with the CRA cost for First-Class single piece letters, the test year 2006 total unit cost is 11.42 cents and the proportional unit cost that results is 7.16 cents.
- C. Confirmed.
- D. Confirmed.
- E. Confirmed.
- F. Confirmed.

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MMA/USPS-T22-5

Please refer to R2006-1 Library Reference USPS-LR-L-48, page 40 and R2006-1 Library Reference USPS-LR-K-48, page 52, where you list the Presorted letter volumes by category.

A. Can you confirm the following volumes and percentages by specific rate category for BY 2005 in this case? If not please provide corrections.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	10,182	1%
Nonautomation Nonmachinable ADC	4,819	0%
Nonautomation Nonmachinable 3-Digit	6,178	0%
Nonautomation Nonmachinable 5-Digit	1,250	0%
Total Nonautomation Nonmachinable	22,429	1%
Nonautomation Machinable Mixed AADC	716,554	41%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	99%
Total Nonautomation	1,739,317	100%
Automation Mixed AADC	2,875,272	6%
Automation AADC	2,500,365	5%
Automation 3-Digit	22,908,988	49%
Automation 5-Digit	17,449,671	38%
Automation Carrier Route	673,921	1%
Total Automation	46,408,216	100%
Grand Total	48,147,533	

B. Can you confirm the following volumes and percentages by specific rate category for BY 2004 in R2005-1? If not please provide corrections.

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First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	79,534	3%
Nonautomation Nonmachinable ADC	78,556	3%
Nonautomation Nonmachinable 3-Digit	391,483	14%
Nonautomation Nonmachinable 5-Digit	308,225	11%
Total Nonautomation Nonmachinable	857,797	31%
Nonautomation Machinable Mixed AADC	271,548	10%
Nonautomation Machinable AADC	156,519	6%
Nonautomation Machinable 3-Digit	524,895	19%
Nonautomation Machinable 5-Digit	138,608	5%
Total Nonautomation Machinable	1,091,570	39%
Total Nonautomation	2,807,164	100%
Automation Mixed AADC	2,770,420	6%
Automation AADC	2,522,102	6%
Automation 3-Digit	22,585,608	51%
Automation 5-Digit	15,963,541	36%
Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

- C. Please explain what phenomena caused the percentage of Nonautomation machinable letters to increase from 39% of total Nonautomation mail in the 2004 Base Year in R2005-1 to 99% of total Nonautomation mail in the 2005 Base Year in R2006-1.
- D. Please explain what phenomena caused the volume of Nonautomation nonmachinable letters to decrease by 97.4%, from 858,797,000 to 22,429,000, between the 2004 Base Year in R2005-1 and the 2005 Base Year in R2006-1.
- E. Please explain in detail how the significant change in the makeup of Nonautomation letters, i.e., a conversion of 835 million letters from nonmachinable to machinable (857,979,000 – 22,429,000), has affected the CRA costs to process this mail between R2005-1 BY 2004 and R2006-1 BY 2005. In other words, should this increase costs, decrease costs or have no impact on costs, all other factors being equal?

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RESPONSE to MMA-T22-5:

A. Confirmed.

B. Confirmed.

C.-D. Redirected to witness Loetscher.

E. It is my understanding that conversion of letters from non-machinable to machinable should, all other things equal, lower costs. The specific cost impact may be difficult to ascertain and/or quantify as the change would have come in the midst of other cost changes due to other forces as well as the impact of IOCS Redesign.

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MMA/USPS-T22-6

Please refer to the summary of First-Class letter presorted unit processing costs as shown on page 1 of Library Reference USPS-LR-L-48. As shown there, the unit cost for Nonautomation letters (6.302 cents) is lower than the unit cost for automation mixed AADC letters (6.470 cents). Please also refer to R2005-1 Library Reference USPS-LR-K-48.

- A. Please confirm the 2005 Base Year volumes and percentages from Library Reference USPS-LR-L-48, page 40 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	10,182	45%
Nonautomation Nonmachinable ADC	4,819	21%
Nonautomation Nonmachinable 3-Digit	6,178	28%
Nonautomation Nonmachinable 5-Digit	1,250	6%
Total Nonautomation Nonmachinable	22,429	100%
Nonautomation Machinable Mixed AADC	716,554	42%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	100%
Total Nonautomation	1,739,317	
Automation Mixed AADC	2,875,272	6%
Automation AADC	2,500,365	5%
Automation 3-Digit	22,908,988	49%
Automation 5-Digit	17,449,671	38%
Automation Carrier Route	673,921	1%
Total Automation	46,408,216	100%
Grand Total	48,147,533	

- B. Please confirm the 2004 Base Year volumes and percentages from R2005-1 Library Reference USPS-LR-K-48, page 52 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

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First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	79,534	9%
Nonautomation Nonmachinable ADC	78,556	9%
Nonautomation Nonmachinable 3-Digit	391,483	46%
Nonautomation Nonmachinable 5-Digit	308,225	36%
Total Nonautomation Nonmachinable	857,797	100%
Nonautomation Machinable Mixed AADC	271,548	25%
Nonautomation Machinable AADC	156,519	14%
Nonautomation Machinable 3-Digit	524,895	48%
Nonautomation Machinable 5-Digit	138,608	13%
Total Nonautomation Machinable	1,091,570	100%
Total Nonautomation	2,807,164	
Automation Mixed AADC	2,770,420	6%
Automation AADC	2,522,102	6%
Automation 3-Digit	22,585,608	51%
Automation 5-Digit	15,963,541	36%
Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

- C.** Please explain what phenomenon caused the volume of Nonautomation nonmachinable letters presorted to 3- and 5-digits to decrease from 82% in BY 2004 to just 34% in BY 2005.
- D.** Please explain why the cost to process Nonautomation letters that bear no prebarcode is less than the cost to process MAADC automation letters that are prebarcoded.

RESPONSE to MMA/USPS-T22-6:

- A. Confirmed.
- B. Confirmed.
- C. Redirected to witness Loetscher.

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- D. The mail in this rate category is more finely presorted than automation Mixed AADC mail. The cost savings from presortation may have offset the costs required to apply a barcode to the average nonautomation mail pieces.

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MMA/USPS-T22-7

Please refer to the cost sheets for First-Class presorted letters shown in Library Reference USPS-LR-L-48, pages 4, 6, 8, 10, 12, 14, 16, 18, 20, and 22. In R2005-1 you provided a derived DPS % on the bottom of each of the cost sheets (see R2005-1 Library Reference USPS-LR-K-48, pages 3, 7, 9, 11, 13, 15, 17, 21, 23, 25, 27, 29 and 31) yet there appears to be no similar derivation of DPS % in this case.

- A. Why did you not derive a DPS % for each of the rate categories for which you provide a cost sheet?
- B. Did you provide DPS %'s to USPS witness Kelley in this case, as you did in R2005-1? If so, please provide those DPS %s and show how each DPS % was derived. If not, why not?
- C. For Automation letters, are the DPS %s different for different presorted levels? If so, please quantify those differences. If not, please explain why they are the same.
- D. For NonAutomation letters, are the DPS %s different for different presorted levels? If so, please quantify those differences. If not, please explain why they are the same.

RESPONSE:

- A. In the instant proceeding, the Postal Service has revised its delivery cost estimates. After further consideration, it has been determined that machinability is the one mail piece characteristic that has a quantifiable impact on delivery costs. The machinable mail pieces would be dispatched to delivery units with the Delivery Point Sequence (DPS) mail, while the nonmachinable mail pieces would not. Delivery cost estimates are therefore provided for machinable and nonmachinable mail pieces only. Delivery cost estimates are no longer provided by rate category, as there is no conclusive evidence to suggest that the DPS percentages actually vary among the machinable rate categories. Furthermore, it would not be possible to conduct a field study to estimate those percentages due to the fact that the specific rate a given mail piece has been assessed cannot be determined. The DPS percentages that have been calculated in the past were a byproduct of the fact that acceptance rates have been assigned to each

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automation operation. It was assumed that less finely presorted rate categories typically had lower DPS percentages due to the fact that the mail was processed through a greater number of operations. In reality, mail pieces that have been successfully processed (i.e., accepted) in an “upstream” automation operation are likely to be successfully processed in a “downstream” operation as well. The mail pieces that have not been accepted in a given automation operation are more likely to be mail pieces that are undergoing a first sortation on automated equipment. While the models may be an effective tool for estimating mail processing unit costs by rate category, they are not likely to be an effective tool for estimating DPS percentages by rate category.

(B-D) No, I did not provide DPS percentages to witness Kelley for the development of workshare-related delivery cost savings. Please see the response to MMA/USPS-T22-7 (A).

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MMA/USPS-T22-8

Please refer to Library Reference USPS-LR-L-48, pages 19, 21, 23, and 25, which depict the mail flow models for letters that require application of a barcode within the Remote Bar Coding System (RBCS).

- A. Are there any means by which you are able to reconcile the model costs to actual CRA costs to test the validity of the mail flow models and the accuracy of the results? Please explain your answer.
- B. Please confirm that in R2005-1, the mail flow model-derived unit cost for BMM was the only model through which letters required the application of a barcode within the RBCS and for which CRA costs were readily available for *direct* comparison purposes. If you cannot confirm, please provide all such models where you derived unit costs and where CRA costs were directly available for comparison purposes.
- C. Please confirm that since R2001-1, the Postal Service's mail flow model for BMM understated actual costs as shown in the following table. (See your answer to Interrogatory MMA/USPS-T21-28A in R2005-1)

Docket No.	Bulk Metered Mail			
	CRA Cost	Model Cost	Prop Factor	Model % Under-estimate
R2000-1 (1998)	6.979	5.269	1.3245	-25%
R2000-1 (1999)	6.856	5.407	1.2680	-21%
R2001-1	6.447	4.276	1.5077	-34%
R2005-1	6.476	4.454	1.4540	-31%

- D. Please confirm that the 1.4540 CRA Proportional factor in R2005-1 meant that the model failed to recognize 31% of the actual costs incurred to process BMM. If you cannot confirm, please explain.
- E. Did you make any material changes to your mail-flow models or input parameters for letters requiring the application of barcodes in the RBCS, such as for the Nonautomation letter categories, which would suggest that your mail flow models in this case are any more accurate than the mail flow models that understated unit costs in previous cases. If so, please describe those changes and explain why the models in this case would account for the apparent missing costs in the last three cases.

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RESPONSE to MMA/USPS-T22-8:

- A. The cost models consist of two spreadsheets: a mail flow spread sheet and a cost spread sheet. These spread sheets are used to calculate modeled costs. A weighted model cost for all the rate categories is then computed using base year mail volumes and is tied back to the CRA using adjustment factors.
- B. Partially confirmed. Please see mail flow models in LR-K-48, page 21 that show that Nonautomation machinable mixed AADC and Nonautomation machinable AADC pieces pass through RBCS processing. Also, the BMM letter model was compared to metered letters costs which consisted of BMM letters and metered letters. There are no other models.
- C. Not confirmed. The single piece metered letters costs by shape were used as a proxy for BMM letters, which cannot be quantified. The proxy, however, does not reflect "actual" BMM letters cost. The first column in table implies the CRA provides a cost for BMM. This is incorrect. Instead, the methodology used in R2001-1 and R2005-1 used the CRA cost for single piece metered letters as a proxy for BMM. Thus the models did not "understate actual [BMM] costs," as stated in the question since the actual costs of BMM were not known.
- D. Partially confirmed. It can be confirmed that 1.4540 was the CRA Proportional factor for BMM in R2005-1. However, it is not confirmed that the model failed to recognize 31% of costs. Please refer to my response to part (C) above. For the reason a Proportional factor is used, please see the response to MMA/USPS-T22-9 (A).
- E. New inputs were used to update all letter mail flow models and cost sheets including the application of barcodes in the RBCS. Please see my testimony USPS-T22-1 page 2 for explanations of types of inputs used and their sources.

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The cost models could overstate, understate cost or accurately state costs, given that they are used as estimation tool.

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MMA/USPS-T22-9

Please refer to Library Reference USPS-LR-L-48, page 2, where you compare the model-derived unit cost to process First-Class Automation letters to the CRA-derived “proportional” unit cost. The computed CRA Proportional Factor is 1.013.

A. Please confirm that since R2001-1, the Postal Service’s mail flow model for Automation letters has overstated actual costs as shown in the following table. (See your answer to Interrogatory MMA/USPS-T21-29A in R2005-1)

Docket No.	Automation Letters			
	CRA Cost	Model Cost	Prop Factor	Model % Over-estimate
R2000-1 (1998)	2.553	2.866	0.891	12%
R2000-1 (1999)	2.63	2.923	0.900	11%
R2001-1	2.138	2.683	0.797	25%
R2005-1	1.886	2.668	0.707	41%

- B. Please confirm that the 0.707 CRA Proportional factor in R2005-1 meant that the models produced nonexistent costs equal to 41% of the actual costs incurred to process the Automation letters. If you cannot confirm, please explain.
- C. Did you make any material changes to your Automation mail flow models or your input parameters that would tend to reduce the amount of costs captured by the models? If not, please explain why your model-derived unit cost to process presorted letters (Nonautomated and Automated letters combined) is so close to your CRA proportional cost. If so, please describe those changes and explain why the models in this case would account for the apparent nonexistent costs that were captured by the models in the last three cases.
- D. If you made no material changes to your mail flow models as suggested in Part (D), please confirm that the reason why your model-derived unit cost for presorted letters is so close to your CRA-derived unit cost is either (1) the overstatement in the model-derived costs for Nonautomation letters offsets the understatement in the model-derived costs for Automation letters, or (2) the CRA has attributed more costs to presorted letters than it did in previous cases or (3) a combination of both (1) and (2). Please explain your answer in detail.

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RESPONSE MMA/USPS-T22-9:

- A. Not confirmed. Please refer to the response to POIR 1, question 1(a) in Docket No. R2005-1. The CRA Proportional factor are applied for the following reasons: (1) average data are used, (2) all tasks are not modeled, and (3) cost models are, by definition, a simplified representation of reality. The cost models are used because actual costs were not available. Therefore, I can not confirm that the models overstate or understate actual costs.

- B. Partially confirmed. It can be confirmed 0.707 was the CRA proportional factor in R2005-1. However, it is not confirmed that the model failed to recognize 41% of costs. Please see the response to part 9A.

- C. It can be confirmed that I have updated the input parameters for both mail flow model and cost sheets. As I have stated in my testimony on page 6, the separate automation and nonautomation costs were combined into one set of cost estimates for the reasons stated in response to POIR 1, question (1 a) in Docket No. R2005-1 and the response to POIR 5, question 4 and 5 in Docket No. R2006-1. Also the inputs changed to reflect updated costs and other factors as well as the impact of IOCS Redesign.

- D Not applicable

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MMA/USPS-T22-10

Please refer to page 2 of Library Reference USPS-LR-L-48, specifically where you compute the CRA Proportional Adjustment factor for all presorted letters combined.

- A. Please confirm that, in order to compute a combined CRA Proportional Adjustment factor for presorted letters, you needed to assume that your mail flow models accurately reflect the cost relationship that actually exists between letters requiring a barcode to be applied (Nonautomation letters) and prebarcoded letters (Automation letters). If not, please explain.
- B. Do you agree that, historically, the Postal Service's mail flow models for nonprebarcoded letters, particularly bulk metered mail, have always understated the actual costs? If not, please explain.
- C. Do you agree that, historically, the Postal Service's mail flow models for prebarcoded letters, particularly Automation letters, have always overstated the actual costs? If not, please explain.
- D. Did you consider computing separate CRA Proportional Adjustment factors, one for Nonautomation letters that require processing within the RBCS and one for Automation letters that bypass the RBCS? If so, why did you reject the idea? If not, why not?

RESPONSE:

- A. Not confirmed. I did not need to make such an assumption. As I stated it in a response to POIR 1, question 1 (a) in Docket No.R2005-1, some nonauto letters have barcodes and some auto letters do not have barcodes. Also, the cost models were structured separately for auto and nonauto. They have always been designed to quantify card/letters operations using the best available data.
- B. I agree that historically the cost model used a CRA cost that included BMM letters and metered bundles. Therefore, one would not have expected to see a CRA proportional adjustment factor of 1.0. Please see the response to MMA/USPS-T-22-8 (C).
- C. I cannot agree or disagree. Historically cost models could have overstated, understated or accurately stated the costs. Please see the response to MMA/USPS-T-22-9 (A).

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- D. Since separate automation and nonautomation costs are no longer used, one
CRA Proportional Adjustment factor is used for all presort letters.

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MMA/USPS-T22-11

Please refer to Library Reference USPS-LR-L-48, pages 5, 7, 9, and 11, where you provide the mail flow models for First-Class Automation letters for each of the presort categories for 10,000 virtual pieces.

A. Can you confirm the number of letters that are rejected in automation operations as shown in the table below? If not, please make any corrections.

Model	Rejects From Automation Operations to Manual Operations						Total Rejects
	Out Sec Auto	Inc MMP Auto	Inc SCF/Prime Auto	Inc Sec 1 Pass Auto	Inc Sec 2 Pass Auto	Inc Sec 3 Pass Auto	
MAADC	384	182	187	76	277	54	1160
AADC		402	67	78	285	55	887
3-Digit			340	79	289	56	764
5-Digit				82	299	58	439

B. Can you confirm that, as letters are processed manually further downstream, i.e., if entered as 5-digit rather than MAADC, the probability that a letter can be processed by automation from mail acceptance to delivery increases. If not, please explain.

C. Please confirm that, according to your models, the probability of a letter being processed by automation from mail acceptance to delivery is as follows:

Automation Rate Category	Automation Probability
MAADC	88.4%
AADC	91.1%
3-Digit	92.4%
5-Digit	95.6%

If you cannot confirm, please provide the correct probabilities and explain how they are derived.

D. Can you confirm that, to the extent that letters are presorted to a lesser degree, i.e., if entered as MAADC rather than 5-digit, the probability that a letter will be rejected by automation equipment and therefore must be processed manually increases? If not, please explain.

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RESPONSE MMA/USPS-T22-11:

- A. Confirmed that as modeled, the number of pieces rejected are as shown. However, I cannot confirm that the pieces rejected were actually of the presort levels shown.
- B. It can be confirmed that average acceptance rates in “downstream” operations are generally greater than the average acceptance rates in “upstream” operations. The automation operations likely process a different mix of single-piece, nonauto presort and auto presort mail. I am also not aware of any analyses that were conducted to quantify whether mail pieces that successfully processed in “upstream” operations would be accepted in “downstream” operations.
- C. Not confirmed. See response to part A.
- D. I can confirm that the probability that a letter may ultimately be rejected by automation equipment may be higher for a letter sorted to the MAADC than a letter sorted to 5-digit

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MMA/USPS-T22-12

Please refer to Library Reference USPS-LR-L-48, page 2, where you compute the weighted average “proportional” unit cost for First-Class presorted letters, and to R2005-1 Library Reference USPS-LR-K-48, page 5, where you compute the weighted average workshare-related unit cost for First-Class automation letters. In R2005-1, you split up Automation 5-digit letters into two categories – “CSCBS/Manual” and “other”. In this case you have only one group for Automation 5-digit. Please explain why you no longer need two separate mail flow models to derive Automation 5-digit costs?

RESPONSE:

In R2005-1, the Automation 5-digit CSCBC/ manual cost was used as the benchmark for the Automation Carrier route presort rate category. This methodology was no longer required to support the pricing witness in Docket No. R2006-1.

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MMA/USPS-T22-13

Please refer to page 1 of Library Reference USPS-LR-L-48, where you derive total mail processing unit costs for First-Class Automated 5-digit and carrier route letters. Your analysis indicates that 5-digit letters cost 3.625 cents whereas carrier route letters cost 2.746 cents, a difference of .879 cents.

- A. Since the Postal Service has proposed to eliminate carrier route as a separate rate category, do you assume that all letters that are now presorted to carrier route will be presorted to 5-digits? Please explain your answer.
- B. Assuming you confirm part (A), has the Postal Service made a separate adjustment to its test year CRA cost estimates to account for the expected .879 cent per piece increase in mail processing costs for each of the 674 million carrier presorted letters? If so, please explain that adjustment. If not, why not?

RESPONSE:

- A. Yes. The carrier route letters are assumed to be presorted to 5-digit. See Testimony of Altaf Taufique, USPS-T-32, page 21.
- B. It is my understanding that adjustments were made to unit cost estimates. Please refer to USPS-LR-L-59.

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MMA/USPS-T22-14

Please refer to page 16 of your testimony where you explain that you adopted R2005-1 USPS witness Hatcher's "narrowly defined cost analysis consistent with that first presented in Docket No. R97-1." In effect, you measure cost differences between processing handwritten addressed letters (HAND) and QBRM letters until each piece receives its first barcoded sortation. Please also refer to Library Reference USPS-LR-L-69, Section A, pages 3 and 5.

- A. Please confirm that in R2000-1, the Commission adopted the Postal Service's QBRM cost savings methodology by measuring the costs for HAND and QBRM letters until they reached the delivery operation. If you cannot confirm, please explain.
- B. Please confirm that, after its first barcoded sortation, your models indicate that 9.72% of the HAND pieces will require manual processing until they reach the delivery operation. If you cannot confirm, please explain.
- C. Please confirm that, after its first barcoded sortation, your models indicate that 4.24% of the QBRM pieces will require manual processing until they reach the delivery operation. If you cannot confirm, please explain.
- D. Please confirm that, after the first barcoded sortation, fewer QBRM pieces will require manual processing than HAND letters. If you cannot confirm, please explain how 95.86% of QBRM can be sent on to automation equipment, yet only 90.38% of HAND letters can be sent on to automation equipment, but that the number of QBRM and HAND letters to be processed manually after the first barcoded sortation would be the same.
- E. Please explain why, by adopting USPS witness Hatcher's "narrow" approach rather than the Commission's approach, you do not completely exclude cost savings exhibited by QBRM that occur after the first barcoded sortation.

RESPONSE:

- A. Confirmed.
- B. Confirmed that the model indicates that 9.72 percent of HAND pieces will require manual processing before they reach the delivery unit.
- C. Confirmed that the model indicates that 4.24 percent of QBRM pieces will require manual processing before they reach the delivery unit.
- D. Confirmed that a fewer percentage of QBRM pieces will require manual handling than HAND pieces.
- E Not confirmed.. The methodology for the cost study I am presenting in this case is unchanged from the model presented by witnesses Hatcher in R2005-1 and

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Miller in R2001-1. I do not have any further rationale beyond what was covered in Dockets No. R2005-1, USPS-T-22, pages 4 at 5-6 and R2001-1: USPS-T-22, Section IV” related interrogatory responses and Commission hearing transcripts. My analysis is limited to costs incurred up to the point each mail piece (QBRM and Hand written reply mail) receives its first barcode sortations on the BCS.

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MMA/USPS-T22-15

Please refer to R2000-1 Library Reference PRC-LR-12, Part B, sheets HANDWRITTEN FLOW MODEL and QBRM FLOW MODEL.

- A. Please confirm that, according to the Commission's model for HAND letters, 21.46% are unable to be sorted by automation through delivery. If you cannot confirm, please explain.
- B. Please confirm that, according to the Commission's model for QBRM letters, 10.71% are unable to be sorted by automation through delivery. If you cannot confirm, please explain.
- C. Please confirm that, after the first barcoded sortation, the percentage of HAND letters likely to be processed manually is almost twice that of QBRM letters. If you cannot confirm, please explain.
- D. Please confirm that the Commission's model addresses and includes mail processing savings after the first barcoded sortation since, at that point, fewer HAND letters are able to be processed by Automation. If you cannot confirm, please explain.

RESPONSE:

Redirected to the Postal Service.

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MMA/USPS-T22-16

Please refer to Library Reference USPS-LR-L-69, Section A, pages 1 and 6, particularly where you use the CRA Adjustment Factor of 1.454 from R2005-1. Please also refer to your response to Interrogatory MMA/USPS-T22-8 in R2005-1.

- A. Please confirm that the CRA Adjustment Factor was obtained by dividing the CRA-derived workshare-related unit cost for bulk metered mail by the model-derived unit workshare-related for bulk metered mail. If you cannot confirm, please explain.
- B. Please confirm that, by definition, BMM letters and HAND letters are similar in that both are nonprebarcoded and both require processing within the RBCS and that the major difference is that BMM has a machine printed address and HAND has a handwritten address. If you cannot confirm, please explain.
- C. Please confirm that, by definition, QBRM and Automation letters are similar in that both are prebarcoded and both completely bypass the RBCS and that the major difference is that QBRM letters enter the mail stream at the mail prep operation while Automation letters enter the mailstream at later points based on the degree of presort. If you cannot confirm, please explain.
- D. Please confirm that it is appropriate to use the CRA Adjustment factor from BMM letters to increase the your [sic] model-derived unit cost for HAND letters, as shown on page 1 of Schedule A in Library Reference USPS-LR-L-69, since the models for nonprebarcoded letters (such as BMM and HAND) historically understate the CRA-derived unit costs. If you cannot confirm, please explain.
- E. Please explain why it is appropriate to use the CRA Adjustment factor from BMM letters to increase the your model-derived unit cost for QBRM letters, as shown on page 1 of Schedule A in Library Reference USPS-LR-L-69, when the models for prebarcoded letters (such as Automation letters) historically overstate the CRA-derived unit costs.

RESPONSE:

- A. Confirmed with the caveat that BMM letters CRA costs by shape actually represent, the costs for a single for all single piece metered letters, of which BMM letters is a subset.
- B. Partially confirmed. Another significant difference is that BMM is prepared in full trays.
- C. Confirmed.
- D. It can be confirmed that I have applied CRA adjustment factors in my analysis in order to be consistent with the methodology that has been used since R2001-1.

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The BMM letters CRA adjustment factor is applied to both handwritten reply mail and QBRM because all three mail types are components of the First-Class Single-Piece mail stream.

E. Please see the response to MMA/USPS-T-22-16 (D).

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MMA/USPS-T22-17

Please refer to Library Reference USPS-LR-L-69, Section B, page 6, where you derive the unit counting cost for high volume QBRM.

- A. Please confirm that you found from your study that, in Base Year 2005, 26.6% of the 163.5 million high volume QBRM pieces were counted manually. If you cannot confirm, please explain.
- B. Please confirm that the Postal Service expends almost 50,000 man hours per year hand counting QBRM letters that are received in high volumes. If you cannot confirm, please explain.
- C. Please confirm that counting by weight averaging techniques or special counting machines is at least 12 times more efficient than counting manually. If you cannot confirm, please explain.
- D. Please explain why the Postal Service manually counts more QBRM letters received in high volumes, than it does by weighing techniques or special counting machines, when manual counting is only 1/12 as productive.
- E. Please explain why the Postal Service counts QBRM letters by hand when it can and does count small parcels 2.5 times faster by using weighing techniques.

RESPONSE:

- A. It can be confirmed that the study showed 26.6% of high volume QBRM were counted manually.
- B. I cannot confirm as the source of the figure is unknown to me.
- C. It can be confirmed that weight averaging techniques or special counting machines can be more efficient than counting manually.
- D-E Special counting machines are not available everywhere. Weight averaging may not be appropriate in some circumstances. Also even if automation is used to process high volume QBRM, some mail will be rejected and processed manually. Furthermore, these decisions are made locally. If a given facility receives mail for one QBRM customer, for example, and receives little residual QBRM, they may determine that manual processing should be used, all things considered.

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MMA/USPS-T22-18

Please refer to Library Reference USPS-LR-L-69, Section B, page 12, where you derive the marginal productivities for high volume QBRM.

- A. Please confirm that the 85% volume variability factor means that, if the volume being counted increases by 100%, the cost to count those pieces increases by just 85%. If you cannot confirm, please explain.
- B. Please explain specifically why, if you manually count 20,000 pieces of QBRM, the time necessary to count the 20,000 pieces is only 185% of the time to count 10,000 pieces rather than twice the time to count 10,000 pieces.

RESPONSE:

Redirected to Witness Bozzo USPS-T-12.

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MMA/USPS-T22-19

Please refer to Library Reference USPS-LR-L-48, pages 39 and 73, where you provide the average mail processing hourly wage rate and premium pay adjustment factors for First-Class and Standard mail.

- A. Please provide the average mail processing hourly wage rate for each fiscal year from 1998 through 2005.
- B. Please provide the average mail processing hourly wage rate projected for fiscal years 2006, 2007 and 2008.
- C. Please provide the premium pay adjustment factors for First-Class Presort, First-Class Single Piece, and Standard letters for each fiscal year from 1998 through 2005.
- D. Please provide the premium pay adjustment factors for First-Class Presort, First-Class Single Piece, and Standard letters projected for fiscal years 2006, 2007, and 2008.

RESPONSE:

A-D. It is my understanding that wage rates are not calculated other than for base year and test year of a rate case. Please refer to Dockets Nos. R2000-1, USPS-T-17; R2001-1, USPS-T-13; R2005-1, USPS-T-11; and R2006-1, USPS-T-11. It is also my understanding that test year premium adjustment factors by class are never calculated. Please refer to premium adjustment factors in for witness Van-Ty-Smith's testimony for the past four omnibus cases.

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MMA/USPS-T22-20

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

A. For cost pool “SPBS OTH”, please confirm that you have categorized such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
SPBS OTH	R2005-1	First Class Metered	Fixed	
SPBS OTH	R2005-1	First Class Automation	Fixed	
SPBS OTH	R2005-1	First Class NonAutomation	Fixed	
SPBS OTH	R2005-1	Standard Automation	Fixed	
SPBS OTH	R2005-1	Standard NonAutomation	Proportional	
SPBS OTH	R2006-1	First Class Presorted	Fixed	
SPBS OTH	R2006-1	Standard Presorted	Proportional	

- B. Please explain why these costs were classified as fixed for all First-Class categories and Standard Automation but were classified as proportional for Standard Nonautomation in R2005-1.
- C. Please explain why these costs are classified as fixed for First Class Presorted but classified as proportional for Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “SPBS OTH” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, SPBS OTH cost pool was classified as “nonworksharing related fixed” for BMM, First Class Automation and for First Class Nonautomation letters. All others were classified as worksharing related fixed.
- B. See response to part A. The SPBS OTH cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) bundle sorting operations at MODS

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facilities. The SPBS is not typically used to process First-Class Mail letter bundles. It is, however, used to process Standard letters bundles. Standard nonautomation presort letter trays can contain bundles and bundle sorting costs were included in the cost mode : therefore a “worksharing related proportional” classification was used. Standard Automation presort trays should not contain bundles.

- C. The MODS operation numbers mapped to this cost pool represent operations used to process Standard mail.
- D. For the classification of the SPBS OTH cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-21

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

A. For cost pool “SPBSPRIO”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
SPBSPRIO	R2005-1	First Class Metered	Fixed	
SPBSPRIO	R2005-1	First Class Automation	Fixed	
SPBSPRIO	R2005-1	First Class NonAutomation	Fixed	
SPBSPRIO	R2005-1	Standard NonAutomation	Fixed	
SPBSPRIO	R2005-1	Standard Automation	Fixed	
SPBSPRIO	R2006-1	First Class Presorted	Fixed	
SPBSPRIO	R2006-1	Standard Presorted	Proportional	

- B. Please explain why these costs were classified as fixed for all First Class and Standard categories in R2005-1 while in R2006-1 these costs are classified as fixed for First Class Presorted but as proportional for Standard Presorted.
- C. Are costs reported in cost pool “SPBSPRIO” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No.R2005-1, the SPBSPRIO was classified “nonworksharing related fixed” cost pool for all categories.
- B. See the response to part A. It is my understanding that the SPBS is used to sort Priority Mail packages or Periodicals/Standard Mail bundles. Only a very small fraction of Standard Mail nonauto letters are entered in bundles. Both the First-Class Mail cards/letters and the Standard Mail letter models assume that

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nonautomation bundles are processed manually. This is most likely given the small volume of nonautomation letter bundles and the fact that the SPBS can be used to separate mail based on the next flats piece distribution operations. If a SPBS is being used to sort Standard Mail to the 5-digit level it is possible that some 5-digit nonauto letter volumes might also be processed with the flats. That volume, however, is likely very small. Although the Standard Mail letters cost model does not model SPBS operations, the SPBS cost pools were classified as proportional because those costs could have been included, had there been data available to use. No data exist, however, that could be used to quantify the percentage processed on the SPBS versus the percentage processed manually. First-Class Mail nonautomation letters, on the other hand, are not as likely to be processed with Priority Mail packages on the SPBS due to the service differences that exist between these two mail types.

- C. For the classification of the SPBSPRIO cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-22

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for test year 2006 in R2005-1 and test year 2008 in R2006-1.

- A. For cost pool “1OPBULK”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
1OPBULK	R2005-1	First Class Metered	Fixed	
1OPBULK	R2005-1	First Class Automation	Fixed	
1OPBULK	R2005-1	First Class NonAutomation	Proportional	
1OPBULK	R2005-1	Standard Automation	Fixed	
1OPBULK	R2005-1	Standard NonAutomation	Proportional	
1OPBULK	R2006-1	First Class Presorted	Proportional	
1OPBULK	R2006-1	Standard Presorted	Proportional	

- B. Please explain why these costs were classified in R2005-1 as fixed for First-Class Metered and Automation letters, as fixed for Standard Automation letters but as proportional for First Class NonAutomation and Standard NonAutomation letters.
- C. Please explain why these costs were classified as fixed for some categories in R2005-1 but are classified as proportional for First Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “1OPBULK” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, the 1OPBULK cost pool for Metered, First Class Mail auto presort letters and Standard Regular Nonauto presort letters were classified as “workshared related fixed”. For First-Class Mail and Standard non auto, the “worksharing related proportional” classification was used. In Docket No. R2006-1, 10PBULK cost pools are classified as proportional.

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- B-C. The 1OPBULK cost pools are now classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools were “worksharing related proportional”. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.
- D. For the classification of the 1OPBULK cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-23

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

- A. For cost pool “1OPPREF”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1OPPREF	R2005-1	First Class Metered	Fixed
1OPPREF	R2005-1	First Class Automation	Fixed
1OPPREF	R2005-1	First Class NonAutomation	Proportional
1OPPREF	R2005-1	Standard Automation	Fixed
1OPPREF	R2005-1	Standard NonAutomation	Proportional
1OPPREF	R2006-1	First Class Presorted	Proportional
1OPPREF	R2006-1	Standard Presorted	Proportional

- B. Please explain why these costs were classified in R2005-1 as fixed for First-Class Metered and Automation letters and Standard Automation but were classified as proportional for First Class and Standard NonAutomation.
- C. Please explain why these costs were fixed for some categories in R2005-1 but are classified as proportional for First-Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “1OPPREF” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, the 1OPPREF cost pool for Metered, First Class Mail auto presort letters and Standard Regular Nonauto presort letters were classified as “workshared related fixed”. For First-Class Mail and Standard non auto, the “worksharing related proportional” classification was used. In Docket No. R2006-1, 1OPPREF cost pools are classified as proportional.

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B-C. The 1OPPREF cost pools are now classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools were “worksharing related proportional”. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.

D. For the classification of the 1OPPREF cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-24

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for the 2006 test year in R2005-1 and the 2008 test year in R2006-1.

- A. For cost pool “1POUCHING”, please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1POUCHNG	R2005-1	First Class Metered	Fixed
1POUCHNG	R2005-1	First Class Automation	Fixed
1POUCHNG	R2005-1	First Class NonAutomation	Proportional
1POUCHNG	R2005-1	Standard Automation	Fixed
1POUCHNG	R2005-1	Standard NonAutomation	Proportional
1POUCHNG	R2006-1	First Class Presorted	Proportional
1POUCHNG	R2006-1	Standard Presorted	Proportional

- B. Please explain why these costs were classified as in R2005-1 fixed for First-Class Metered and Automation letters and for Standard Automation but classified as proportional for First Class and Standard NonAutomation.
- C. Please explain why these costs were classified as fixed for some categories in R2005-1 but classified as proportional for First-Class Presorted and Standard Presorted in R2006-1.
- D. Are costs reported in cost pool “1POUCHING” fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, the 1POUCHING cost pool for Metered, First Class Mail auto presort letters and Standard Regular Nonauto presort letters were classified as “workshared related fixed”. For First-Class Mail and Standard non auto, the “worksharing related proportional” classification was used. In Docket No. R2006-1, 1POUCHING cost pools are classified as proportional.

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B-C. The 1POUCHING cost pools are now classified as proportional because the

Docket No. R2005-1 nonauto classifications for these cost pools were

“worksharing related proportional”. The cost by shape estimate used in the

instant proceeding is for all presort letters (auto and nonauto combined). Since

some of the mail flows through the operation underlying this cost pool, the costs

are modeled and therefore the cost pool is classified as proportional. In Docket

No. R2005-1, separate cost by shape estimates were used for auto presort

letters and nonauto presort letters.

D. For the classification of the 1POUCHING cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-25

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for test year 2006 in R2001-1 and test year 2008 in R2006-1.

A. For cost pool "1PRESORT", please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Pool Category
1PRESORT	R2005-1	First Class Metered	Fixed
1PRESORT	R2005-1	First Class Automation	Fixed
1PRESORT	R2005-1	First Class NonAutomation	Proportional
1PRESORT	R2005-1	Standard Automation	Fixed
1PRESORT	R2005-1	Standard NonAutomation	Fixed
1PRESORT	R2006-1	First Class Presorted	Fixed
1PRESORT	R2006-1	Standard Presorted	Fixed

- B. Please explain why these costs were classified as proportional for First-Class NonAutomation letters in R2005-1 but classified as fixed for all other categories in R2005-1 and classified as fixed for all categories in R2006.
- C. Are costs reported in cost pool "1 PRESORT" fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In R2005-1, all classifications should have been "worksharing related fixed".
- B. Please see the response to part A.
- C. For the classification of the 1PRESORT cost pool, please refer to USPS-LR-L-48, pages 3 and 45.

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MMA/USPS-T22-26

Please refer to R2005-1 Library Reference USPS-LR-K-48, pages 2, 6, 20, 61 and 62, and R2006-1 Library Reference USPS-LR-L-48, pages 3 and 45. These pages show how you derived the CRA proportional and fixed unit costs for test year 2006 in R2001-1 and test year 2008 in R2006-1.

- A. For cost pool "SPB", please confirm that you have classified such costs as shown in the table below. If you cannot confirm, please explain.

Cost Pool	Docket No.	Rate Category	Cost Category	Pool
SPB	R2005-1	Standard Automation	Fixed	
SPB	R2005-1	Standard NonAutomation	Proportional	
SPB	R2006-1	Standard Presorted	Proportional	

- B. Please explain why these costs were classified as fixed for Standard Automation and as proportional for Standard NonAutomation in R2005-1 but are classified as proportional for Standard Automation and NonAutomation combined in R2006-1.
- C. Are costs reported in cost pool "SPB" fixed or proportional? Please explain your answer.

RESPONSE:

- A. Not confirmed. In Docket No. R2005-1, the SPB cost pool for Standard Regular presort Auto was classified as worksharing related fixed and for Standard Regular presort non auto was classified as worksharing related proportional.
- B. The SPB costs are classified as proportional because the Docket No. R2005-1 nonauto classifications for these cost pools was worksharing related proportional. The cost by shape estimate used in the instant proceeding is for all presort letters (auto and nonauto combined). Since some of the mail flows through the operation underlying this cost pool, the costs are modeled and therefore the cost pool is classified as proportional. In Docket No. R2005-1, separate cost by shape estimates were used for auto presort letters and nonauto presort letters.

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C. For the classification of the SPB cost pool, please refer to USPS-LR-L-48, pages
3 and 45.

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.

Nan K. McKenzie

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July 6, 2006