

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

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE  
WITNESS ABDULKADIR M. ABDIRAHMAN TO INTERROGATORIES  
OF VALPAK DIRECT MARKETING SYSTEMS, INC.  
AND VALPAK DEALERS' ASSOCIATION, INC.,  
REDIRECTED FROM WITNESS TAUFIQUE  
(VP/USPS-T28-8 a-e, g; 9 a, c-f, i; 14-15)

The United States Postal Service hereby files the responses of witness  
Abdirahman to the following interrogatories of the Valpak Direct Marketing Systems, Inc.  
and Valpak Dealers' Association, Inc.: VP/USPS-T28-8 a-e, g; 9 a, c-f, i; 14-15, filed on  
April 20, 2005.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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May 4, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE  
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**VP/USPS-T28-8.** Please refer to VP/USPS-T28-3, part b. For the 4.201-cent unit cost for delivery of Standard Regular Basic presort letters referenced therein, please provide a narrative description of its nature. In your response, please include answers to the following questions.

- a. Is it in effect a bottom-up cost for delivery, or have adjustments been made? If the latter, please provide a description of all adjustments.
- b. Is this cost the same for nonprofit as for the commercial category? If so, does it therefore recognize no differences in cost incurrence between these two categories?
- c. Does it include both in-office costs and street costs?
- d. Is it designed to be a marginal cost? If not, please explain the theory that guides its development.
- e. Does it recognize both city routes and rural routes? How are these different?
- g. Please confirm that the updated figure for this cost is 4.591 cents, 9.3 percent higher than the current figure, found in file LR-K-101STDLTRS.xls of library reference USPS-LR-K-101. If you do not confirm, please provide the correct updated figure and identify its source.

**Response:**

Please note that the 4.201 cents Standard Mail nonautomation basic presort letters delivery unit cost estimate was revised to 4.206 on 11/15/01. Please see USPS-LR-J-60. The 4.206 cents figure was developed as a weighted average of the delivery unit cost estimates for the four nonautomation basic letter components (based on machinability and presort level) that make up that rate category.

- a. Please refer to USPS-LR-J-117 for a full explanation of the development of the delivery unit cost estimates.
- b. As result of PL 106-384, which was passed in October 2000, the USPS no longer collects or develops separate and distinct unit cost estimates for the Standard Mail Regular and Nonprofit rate categories. Hence, the figures developed in USPS-LR-J-60 represented a composite of Regular and Nonprofit cost estimates.

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**RESPONSE TO VP/USPS-T28-8 (CONT.):**

- c. Please refer to USPS-LR-J-117 for a full explanation of the development of the delivery unit cost estimates.
- d. All cost estimates contained in Docket No. R2001-1, USPS-LR-J-60 represented marginal costs.
- e. Please refer to USPS-LR-J-117 for a full explanation of the development of the delivery unit cost estimates.
- g. Not confirmed. In the instant proceeding, the corresponding figure is 5.410 cents and can be found in USPS-LR-K-48 on page 57.

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**VP/USPS-T28-9.**

- a. Please refer to VP/USPS-T28-3, part b. For the 13.474-cent unit cost for mail processing of Standard Regular Basic presort letters referenced therein, please confirm that the source of this unit cost is cell C13 of the "LETTERS SUMMARY" sheet in file STANDARD.XLS file of library reference USPSLR-J-60 in Docket No. 2001-1, and that it is a weighted average of the more disaggregated unit costs in cells C14 through C17. If you do not confirm, please provide the appropriate updated figure and give the source.
- c. Please provide a narrative description of the nature of this mail processing cost of 13.474 cent referenced in preceding parts a and b.
- d. Is this 13.474-cent unit cost an estimate of a marginal cost? If not, please explain the costing concept it measures.
- e. Is this 13.474-cent unit cost constrained or limited in any way? If yes, please explain each constraint and the reason for it.
- f. If the rate for Standard Regular Basic non-prebarcoded presort letters, which is now 26.8 cents, were to be reduced and there were to be an associated volume increase, in line with the appropriate elasticity, please explain whether you would expect the costs behind the 13.474-cent figure to increase on a peradditional-unit basis.
- i. Please confirm that the updated unit cost for Standard Regular Basic presort letters is 17.303 cents, 28.4 percent higher than the level in Docket No. 2001-1, found the file LR-K-110.xls of library reference USPS-LR-K-110. If you do not confirm, please provide the correct figure and its source.

**Response:**

a. Not confirmed. The 13.474 cents mail processing unit cost estimate for Standard Mail nonautomation basic presort letters was revised on 11/15/01. The revised figure of 13.037 cents was calculated in Docket No. R2001-1, USPS-LR-J-60, page 56 using the Postal Service's cost methodology. In the instant proceeding, the corresponding Test Year 2006 cost estimate (using the Postal Service's cost methodology) is 17.409 cents and can be found in USPS-LR-K-48, page 57. The 17.409 cents figure was developed as a weighted average of the mail processing unit cost estimates for the four nonautomation basic letter components (based on machinability and presort level) that make up that rate category.

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**RESPONSE TO VP/USPS-T28-9 (CONT.):**

- c. Please see the response to VP/USPS-T28-9(a).
- d. All cost estimates contained in Docket No. R2001-1, USPS-LR-J-60 represented marginal costs.
- e. I do not understand the question.
- f. Sufficient information was not provided to answer this question.
- i. Not confirmed. The 17.303 cents mail processing unit cost estimate cited in this interrogatory represents the aggregate CRA mail processing unit cost estimate by shape for Standard Mail nonautomation presort letters (basic presort and 3/5-digit presort combined). Furthermore, this figure relies on the PRC cost methodology, while the data contained in Docket No. R2001-1, USPS-LR-J-60, reflected the Postal Service's cost methodology. In the instant proceeding, the mail processing unit cost estimate for Standard Mail nonautomation basic presort letters (using the Postal Service's cost methodology) is 17.409 cents and can be found in USPS-LR-K-48, page 57.

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**VP/USPS-T28-14.**

Please refer to VP/USPS-T28-13, part b. For the 4.201-cent and the 4.418-cent unit delivery costs referenced in part b, please provide a narrative description of the nature of these costs. In your response, please include answers to the following questions.

- a. Are the costs in effect bottom-up costs for delivery, or have adjustments been made? If the latter, please explain the adjustments.
- b. Are these costs the same for nonprofit and for-profit? If so, do they fail to recognize any differences in cost incurrence between nonprofit and for-profit?
- c. Do these costs include both in-office costs and street costs?
- d. Are these costs designed to be marginal costs? If not, please explain the theory that guides their development.
- e. Do these costs recognize both city routes and rural routes, and how are these different?
- f. Please explain why it is reasonable, if it is, for the delivery cost of 3/5-digit presorted letters to be **higher** than the corresponding cost of Basic presort letters.
- g. Please confirm that in this case the updated figures for the delivery costs of Standard Basic presorted letters and 3/5-digit presorted letters are, respectively, 4.519 and 4.678 cents, found in file LR-K-110STDLTRS.xls of library reference USPS-LR-K-110. If you do not confirm, please provide updated unit costs and their source.

**Response:**

Please note that the 4.201 cents Standard Mail nonautomation basic presort letters delivery unit cost estimate and the 4.418 cents Standard Mail nonautomation 3/5-digit presort letters delivery unit cost estimate were revised to 4.206 cents and 4.417 cents, respectively, on 11/15/01. Please see USPS-LR-J-60. These figures were developed as a weighted average of the delivery unit cost estimates for the four nonautomation letter components (based on machinability and presort level) that make up each rate category.

- a. Please see the response to VP/USPS-T28-8(a).
- b. Please see the response to VP/USPS-T28-8(b).

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**RESPONSE TO VP/USPS-T28-14 (CONT.):**

c. Please see the response to VP/USPS-T28-8(c).

d. Please see the response to VP/USPS-T28-8(d).

e. Please see the response to VP/USPS-T28-8(e).

f. The mail characteristics data upon which the USPS-LR-J-60 cost models relied showed that the percentage of nonmachinable mail for the Standard Mail nonautomation basic presort letters and nonautomation 3/5-digit presort letters rate categories were 20.28 percent and 34.67 percent, respectively. The delivery unit cost estimate for the latter rate category was therefore higher.

g. Not confirmed. In USPS-LR-K-110, the Standard Mail delivery unit cost estimates for nonautomation basic presort letters and nonautomation 3/5-digit presort letters are 4.335 cents and 4.678 cents, respectively. These figures, however, are not "updated" figures that correspond to USPS-LR-J-60. In Docket No. R2001-1, USPS-LR-J-60 contained cost estimates that relied upon the Postal Service's cost methodology. In the instant proceeding, USPS-LR-K-110 contains cost estimates that rely upon the Commission's cost methodology.

Using the Postal Service's cost methodology, the Standard Mail delivery unit cost estimates for nonautomation basic presort letters and nonautomation 3/5-digit presort letters are 5.410 cents and 6.284 cents, respectively, and can be found in USPS-LR-K-48 on page 57.

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**VP/USPS-T28-15.** Please refer to VP/USPS-T28-13, part b, and the unit mail processing costs of 9.712 and 8.257 cents for Basic and 3/5 digit presort letters, respectively, as referenced therein, and respond to the following questions.

- a. Please confirm that the source for the 9.712-cent mail processing cost for Basic presort letters is the "LETTERS SUMMARY" sheet of file STANDARD.XLS of library reference USPS-LR-J-60 in Docket No. 2001-1, and that it is labeled "MAIL PROC WORK-SHARING UNIT COST." If you do not confirm, please provide the correct source.
- b. Please confirm that the source for the 8.257-cent mail processing cost for 3/5 digit presort letters is the "LETTERS SUMMARY" sheet of file STANDARD.XLS of library reference USPS-LR-J-60 in Docket No. 2001-1, and that it is labeled "MAIL PROC WORK-SHARING UNIT COST." If you do not confirm, please provide the correct source.
- c. Please refer to the 6.863-cent cost difference in cell E13 of sheet "PRE DIS" in file USPS-LR-J-132.xls (Docket No. 2001-1), which is dependent in part on the mail processing costs of 19.729 cents and 12.866 cents in cells F7 and F8 respectively, which in turn come from cells G33 and G35 of the "CRA ADJ UNIT COSTS" sheet of the file STANDARD.XLS of library reference USPSLR-J-61 in Docket 2001-1, respectively, which are labeled "Total Mail Proc Unit Cost." Please explain whether the mail processing unit costs of 9.712 cents and 8.257 cents (which are labeled as worksharing related unit costs) are defined in a way that is consistent with the mail processing unit costs of 19.729 cents and 12.866 cents (which are labeled as total mail processing unit costs).
- d. If the four costs in preceding part c are consistent, please explain:
  - (i) The nature of each;
  - (ii) Their characteristics;
  - (iii) How they are defined;
  - (iv) Whether any constraints have been placed on them;
  - (v) Whether they should be characterized as bottom-up costs; and
  - (vi) Whether they are marginal costs.
- e. If the four costs in preceding part c part are not consistent, please explain what adjustments need to be made in order to make them consistent.
- f. Please confirm that in this case the 9.712-cent figure is updated to 11.805 cents and the 8.257-cent figure is updated to 11.338 cents, as shown on sheet LR-K-110STDLTRS.xls of USPS-LR-K-110. If you do not confirm, please provide the correct updated figures and their source.

**Response:**

Please note that the 9.712 cents Standard Mail nonautomation basic presort letters mail processing unit cost estimate and the 8.257 cents Standard Mail nonautomation 3/5-

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**RESPONSE TO VP/USPS-T28-15 (CONT.):**

digit presort letters mail processing unit cost estimate were revised to 9.275 cents and 8.386 cents, respectively, on 11/15/01. Please see USPS-LR-J-60. These figures were developed as a weighted average of the mail processing unit cost estimates for the four nonautomation letter components (based on machinability and presort level) that make up each rate category.

a-b. Confirmed for the revised numbers described above.

c-e. It is assumed the Docket No. R2001-1 spreadsheet cited in these interrogatories should have been USPS-LR-J-132-WP1.XLS. In the sheet tabbed "PRE DIS," the 6.863 cents figure can be found in cell E13. However, the numbers referenced in cells F7 and F8 cannot be found in that spreadsheet. The 6.863 cents figure in "PRE DIS" is taken from another spreadsheet tabbed "PASSREG" and represents the mail processing unit cost differential between a Standard Mail basic presort flat and a Standard Mail 3/5-digit presort flat. The 19.729 and 12.866 cents figures represent total mail processing unit cost estimates for nonautomation basic presort flats and nonautomation 3/5-digit presort flats, respectively. The revised versions of the letters numbers described above represented worksharing related portions of the mail processing unit cost estimates for Standard Mail nonautomation basic presort letters and nonautomation 3/5-digit presort letters. It is unclear why total mail processing unit cost estimates for flats rate categories are being compared to a portion of the mail processing unit cost estimates for the corresponding letters rate categories. It is therefore not possible to provide a meaningful response to this interrogatory.

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**RESPONSE TO VP/USPS-T28-15 (CONT.):**

f. Not confirmed. The revised Docket No. R2001-1, USPS-LR-J-60 mail processing unit cost estimates for the Standard Mail nonautomation basic presort letters and nonautomation 3/5-digit presort letters rate categories were 9.275 cents and 8.386 cents, respectively. These numbers were developed using the Postal Service's cost methodology and are therefore not directly comparable to the USPS-LR-K-110 figures, which were developed using the Commission's cost methodology. In the instant proceeding, the mail processing unit cost estimates for the Standard Mail nonautomation basic presort letters and nonautomation 3/5-digit presort letters rate categories are 12.153 and 10.614, respectively, and can be found in USPS-LR-K-48, page 57.

## **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.

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May 4, 2005