

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 THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1
(May 9, 2005)

The United States Postal Service hereby provides the responses of its witnesses to Presiding Officer's Information Request No. 1, issued April 22, 2005. The response to subpart (a) is provided by witness Abdirahman. The response to subpart (b) is provided by witness Taufique.

The two parts of the request are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ABDIRAHMAN TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) NO. 1, PART A**

Please refer to USPS-T-21 Tables 1 and 2, USPS LR-K-48 and LR-K-110. The workshare-related savings for (machinable) First-Class Mail Nonautomation Presort letters is *negative* 1.413 cents using the USPS proposed methodology and *negative* 1.652 cents using the methods in the R2001-1 PRC Opinion. These results imply that presorted First-Class letters that are not prebarcoded are more costly for the Postal Service to process than similar letters that are not presorted.

- a. Please provide any operational, methodological, data collection or other explanation for this result. Include a discussion of how changes in the entry profile of Nonautomation Presort letters since Docket No. R97-1 might affect the calculation of the workshare-related mail processing costs of machinable Nonautomation Presort letters.
- b. Please explain the rationale for preserving and increasing the rate incentive for mailers to perform work that increases Postal Service costs.

RESPONSE:

(a) The negative nonautomation machinable presort letters savings estimates are a result of the cost methodologies that were relied upon in the past two rate cases. In Docket No. R2000-1, the Base Year (BY) was 1998. Under the approach used to classify tallies in the "BY 1998" methodology, First-Class Mail presort letters tallies associated with mail pieces bearing 9-digit and 11-digit barcodes were classified as "automation" tallies. All other First-Class Mail presort letters tallies were classified as "nonautomation" tallies.

Due to the timing of Docket No. R2000-1, updated Cost and Revenue Analysis (CRA) data were available for Fiscal Year (FY) 1999 before the record was closed. On May 26, 2000, the Commission instructed the Postal Service in Order No. 1294 to update the record to incorporate FY 1999 CRA costs into the Test Year (TY) forecasts, to the extent practicable.

RESPONSE OF POSTAL SERVICE WITNESS ABDIRAHMAN
TO POIR NO. 1, PART A

Response to POIR No. 1a continued

However, between the production of the FY 1998 and FY 1999 cost results, a change had been made in the classification of tallies between automation and nonautomation. Under the "BY 1999" cost methodology, only First-Class Mail presort letters tallies associated with mail pieces bearing 11-digit barcodes were classified as automation tallies. All other First-Class Mail presort letters tallies, including those associated with mail pieces bearing 9-digit barcodes, were classified as nonautomation tallies.

This change in the treatment of the tallies resulted in costs being moved from the high volume automation presort letters category to the lower volume nonautomation presort letters category. Due to the large volume differences between the two categories, the nonautomation presort letters unit costs increased dramatically, while the automation presort letters unit costs decreased slightly. Consequently, the worksharing related savings estimates for the nonautomation presort letters rate category decreased, while those for the automation presort letters rate categories increased. The nonautomation presort letters volumes have also declined steadily over time. This trend appears to have magnified the effect of the BY 1999 methodology on nonautomation costs.

In its R2000-1 Opinion and Recommended Decision, the Commission relied on the BY 1999 cost methodology. In Docket No. R2001-1, the Postal Service also relied on the BY 1999 cost methodology.

RESPONSE OF POSTAL SERVICE WITNESS ABDIRAHMAN
TO POIR NO. 1, PART A

Response to POIR No. 1a continued

An alternative cost methodology would be to combine the nonautomation presort letters and automation presort letters costs by shape into one category for all presort letters. All nonautomation and automation model costs would then be weighted together and compared to one IOCS cost by shape for all presort letters. This would likely result in a positive cost savings. This methodology may be more appropriate given that existing mail preparation standards may yield inaccurate IOCS nonautomation costs. As the volume of nonautomation presort mail has declined, the effects of any inaccuracies would be magnified.

Under current mail preparation standards, a mailing can qualify for automation rates even if, during acceptance and verification, it is determined that less than 100 percent of the mail pieces have legitimate 11-digit barcodes. A percentage of letters accepted at the automation presort letter rates may therefore have 9-digit barcodes, 5-digit barcodes, or no barcodes at all. Classifying tallies as automation presort letters based solely on the presence of a specific barcode may therefore not be valid. Nonautomation presort letters are also problematic. If a given automation mailing fails to meet the standard described above at the time of acceptance, the mailer may choose to be assessed the nonautomation presort letters rate, rather than rework the mail. This means that some nonautomation presort letters mailings could contain a significant number of mail pieces with legitimate 11-digit barcodes. Based solely on the physical examination of mail piece characteristics (e.g., barcodes), it is not always possible for data collectors

RESPONSE OF POSTAL SERVICE WITNESS ABDIRAHMAN
TO POIR NO. 1, PART A

Response to POIR No. 1a continued

to determine whether the revenue of a given mail piece, and the piece itself, was recorded at the nonautomation rates or automation rates

The Postal Service's across-the-board rate increase proposals do not rely on the results of the special cost studies presented in this case; those results have only been used to estimate final adjustments to the rollforward model. Under these circumstances, the Postal Service used the cost methodology from the R2001-1 case, the BY 1999 nonautomation / automation cost methodology, to develop the cost studies found in USPS-LR-K-48 and USPS-LR-K-110. However, the Postal Service expects to continue consideration of alternative cost study approaches prior to the filing of the next omnibus case.

In regard to the entry profile for nonautomation presort letters, the percentage of nonmachinable mail appears to have decreased over time. This change is not surprising given that the definition of the nonmachinable surcharge was expanded in Docket No. R2001-1 to include nonmachinable nonautomation presort letters.

(b) Please see the response of witness Taufique.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 1, PART B

Please refer to USPS-T-21 Tables 1 and 2, USPS LR-K-48 and LR-K-110. The workshare-related savings for (machinable) First-Class Mail Nonautomation Presort letters is *negative* 1.413 cents using the USPS proposed methodology and *negative* 1.652 cents using the methods in the R2001-1 PRC Opinion. These results imply that presorted First-Class letters that are not prebarcoded are more costly for the Postal Service to process than similar letters that are not presorted.

- a. Please provide any operational, methodological, data collection or other explanation for this result. Include a discussion of how changes in the entry profile of Nonautomation Presort letters since Docket No. R97-1 might affect the calculation of the workshare-related mail processing costs of machinable Nonautomation Presort letters.
- b. Please explain the rationale for preserving and increasing the rate incentive for mailers to perform work that increases Postal Service costs.

RESPONSE:

- a. Please see the response of witness Abdirahman (USPS-T-21).
- b. First of all, as noted in witness Abdirahman's response to part a of this POIR, methodological issues may exist that could explain the negative value for the calculation of the workshare-related savings, so the prices as proposed would not necessarily result in higher costs due to mailers performing work. In fact, there is reason to believe that value remains in the mailer sortation of items that are not presented in a manner that facilitates their processing through postal automation. In essence, the Postal Service may still be benefited by mailers presorting mail that does not readily go through postal automation, and thereby avoiding potentially relatively expensive processing costs as a result of the presorting.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 1, PART B

Response to POIR No. 1b continued

Moreover, this filing is designed to fairly and equitably distribute the escrow burden to the classes of mail, and within the mail classes to individual rate categories. The proposed prices are based on the application of a 5.4 percent target increase for each rate category, adhering to the rounding conventions for that particular rate category. In a traditional omnibus case we could potentially reexamine costing methodologies and the alignment of discounts, as well as consider potential classification changes. These issues will be reviewed prior to the filing of the next omnibus rate filing. In fact, we believe it is more appropriate to examine the entire array of discounts at that time.

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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May 9, 2005