

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES OF
THE GREETING CARD ASSOCIATION (GCA/USPS-T28-1-3)

The United States Postal Service hereby files the response of witness Altaf H. Taufique to the following interrogatories of the Greeting Card Association:
GCA/USPS-T28-1-3, filed on April 29, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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GCA/USPS-T28-1. Please refer to pages 4-6 and Table 1 of your prepared testimony, USPS-T28. USPS witnesses Potter (USPS-T1, pp 4-5, 7) and Robinson (USPS-T27, pp. 6-8) state the purpose of this case is to raise sufficient additional revenue to discharge the Public Law 108-18 escrow obligation, by means of substantially equal increases for substantially all categories. In view of this purpose, what is the rationale for enlarging the discount for certain First-Class Presorted and Automation heavy pieces? In addition to explaining this rationale, please furnish any documents in which such rationale or the considerations underlying its development are set forth.

RESPONSE:

Generally speaking, all discounts were increased by the overall across-the-board increase of 5.4 percent to ensure that the resulting discounted rates were increased by the same percent, with due regard for rounding constraints for the various rate cells.

If the discounts were held at the current level, while the base from which the discounts are calculated (i.e., the First-Class Mail single piece rate) was increased by 5.4 percent, then the discounted rates would increase by a substantially higher percent than the 5.4 percent target. For example, the attached Excel sheet shows the impact of holding the discounts at the current level. The First-Class Mail nonautomation presort rate would increase by 5.7 percent, compared to the proposed increase of 5.4 percent. Mixed AADC, AADC, 3-Digit and 5-Digit Automation Letter rates would increase by 6.5, 6.6, 6.8, and 7.2 percent, respectively compared to the proposed increases of 5.5, 5.3, 5.5, and 5.4 percent, respectively.

The example of a 4 ounce piece provided in the attached sheet also demonstrates that if the heavy-piece discount is kept constant while other rates increase by 5.4 percent, the postage impact on the 4 ounce piece is higher than 5.4 percent.

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We believe that it is fair and equitable for these mail categories to pay the same percent increase as all other rate categories in the subclass. Also, a higher than average increase for these rate categories might lead to a price-elasticity induced reduction in volume which, in turn, would require a higher than 5.4 percent increase for the single-piece rate to generate the required revenue. Finally, I would note that, although workshared First-Class Mail is not a subclass, the proposal along the lines suggested in your question would cause these workshare rate categories, which have an implicit cost coverage exceeding all of the subclasses and whose unit cost has in fact declined 2.8 percent (between FY2000 and FY2004), to bear a disproportionate share of the escrow burden.

Attachment to GCA/USPS-T28-1

RATE CHANGES WITH CONSTANT DISCOUNTS

Presorted and Automation Rates

	Current Rate	Proposed Rate w/constant Discounts	Percent Change (Col. D/Col.B)-1
Single-Piece	0.37	0.39	Not Applicable
Presorted			
First Ounce	0.352	0.372	5.7%
Discount	0.018		
Automation Letters			
Mixed AADC	0.309	0.329	6.5%
Discount	0.061		
AADC	0.301	0.321	6.6%
Discount	0.069		
3-Digit	0.292 0.078	0.312	6.8%
5-Digit	0.278 0.092	0.298	7.2%
Automation Heavy Pieces			
	4 Ounce Automation Piece - 3 Digit Presort		
	Current	Proposed w/constant Heavy Pc. Discount	
First Ounce	0.292	0.308	
Additional Ounces	0.675	0.711	
Heavy Piece Discount	-0.041	-0.041	
	0.926	0.978	5.6%

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GCA/USPS-T28-2. Did the Postal Service estimate the amount of revenue that would be forgone by increasing the heavy-piece discount referred to in Interrogatory GCA/USPS-T28-1? If your answer is not an unqualified “no,” please provide such estimate and any and all underlying calculations.

RESPONSE:

No. The total revenue resulting from the proposed First-Class Mail Letters and Sealed Parcels subclass would not necessarily be different. In general, rates are proposed that meet a revenue target for a subclass as a whole. If, as in your hypothetical, the heavy-piece discount were not increased (i.e., rates for heavy pieces were higher), it is likely that there would have been reductions in some other rates in the Letters and Sealed Parcels subclass. The Postal Service did not estimate the revenue effect of not increasing the heavy-piece discount as suggested by interrogatory GCA/USPS-T28-1, holding other proposed rates constant. The calculation is fairly simple and is provided in the attached sheet. The amount is estimated to be approximately \$760,000, assuming no additional volume effect. Please see the attached sheet for the simple calculation that utilizes the estimate of TYAR heavy-pieces and takes the difference between the product of this estimated volume and the existing discount, and the product of the estimated volume and the proposed discount.

Attachment to GCA/USPS-T28-2

Heavy Pieces - USPS28Aspreadsheets.xls, worksheet FM-4

	TYAR Volume	Current Discount	Proposed Discount
Nonautomation Presort	72,133		
Automation Presort Letters	90,719		
Automation Presort Flats	216,089		
Automation Carrier Route Letters	734		
Total	379,675	0.041	0.043
		\$ 15,567	\$ 16,326
Difference	759		

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GCA/USPS-T28-3. Did the Postal Service estimate the amount of revenue that would be obtained by raising the non-machinable surcharge for single-piece First-Class Letters from 12 cents to 13 cents? If your answer is not an unqualified “no,” please provide such estimate and any and all underlying calculations.

RESPONSE:

No. The total revenue resulting from the proposed First-Class Mail Letters and Sealed Parcels subclass would not necessarily be different. In general, rates are proposed that meet a revenue target for a subclass as a whole. If, as in your hypothetical, the single-piece nonmachinable surcharge were not increased (i.e., rates for nonmachinable single-pieces were lower), it is likely that there would have been increases in some other rates in the Letters and Sealed Parcels subclass. The Postal Service did not estimate the amount of revenue that would be obtained by raising the non-machinable surcharge for single-piece First-Class Mail letters from 12 cents to 13 cents, holding all other proposed rates constant. The calculation is fairly simple and is provided in the attached sheet. The amount obtained is estimated to be approximately \$4.8 million, assuming no additional volume impact. Please see the attached sheet for the simple calculation that utilizes the estimate of TYAR non-machinable pieces and takes the difference between the product of the estimated volume and the existing surcharge, and the product of the estimated volume and the proposed surcharge.

Attachment to GCA/USPS-T28-3

	TYAR Volume	Current Discount	Proposed Discount
Single-Piece nonmachinable	478,476	0.12	0.13
Difference	\$ 4,785	\$ 57,417	\$ 62,202