

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 POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ABA&NAPM
REDIRECTED FROM WITNESS ABDIRAHMAN
[ABA&NAPM/USPS-T21-21, 27b, 30, 33, 34, 35, 36]
(May 26, 2005)

The United States Postal Service hereby responds to the above-listed interrogatories of American Bankers Association and National Association of Presort Mailers, filed on May 11, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS SMITH
TO INTERROGATORY OF ABA & NAPM
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ABA&NAPM/USPS-T21-21. Please explain what factors have caused the MODS 11 BCS/ unit cost for BMM to fall from 0.512 cents in R2001-1 to 0.252 cents in this case (ref. LR-K-48, page 2 and LR-J-60, page 8, rev. 11/05/01); while the unit costs for the MODS 11 BCS/DBCS operation have risen from 1.634 cents to 2.002 cents.

RESPONSE:

The "MODS 11 BCS/" cost pool is for MPBCS, while "MODS 11 BCS/DBCS" is primarily DBCS. The changes in costs per piece for these two cost pools are due the removals of MPBCS and the workload shift to DBCS.

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ABA&NAPM/USPS-T21-27. Since it appears that you could be using a single piece metered benchmark for mail processing costs, please answer the following questions:

- a. Why would single piece metered letters be any more likely to be the mailstream most likely to convert to worksharing than any other single piece letter?
- b. According to the figures in LR-K-53, “calculated total” in column BN relative to those in the last fully litigated case in R2000-1, mail processing unit costs have come down by 0.879 cents for single piece letters but have increased for single piece metered letters by 0.136 cents. Why would metering a letter rather than putting a stamp on it and depositing it, for example, in a USPS blue collection box with a stamped letter, cause the two single piece letter mail processing costs to have exhibited such totally different cost dynamics between R2000-1 and R2005-1?

RESPONSE:

- a. See witness Abdirahman’s response to part a.
- b. The unit cost changes you cite indicate that the cost difference between First-Class single-piece letters and First-Class single-piece metered letters has narrowed by approximately 1 cent (from 1.53 cents for R2000-1 to 0.52 cents for R2005-1). Most of the narrowing of the difference is due to greater declines or smaller increases for First-Class single-piece letters (vs. the First-Class single-piece metered letters) on manual letter sorting (at plants, stations and branches), allied operations and RBCS costs (see LR-K-53, shp06usps.xls, sheet “Letters (4)” and LR-I-81, mpshusty.xls, sheet “Letters (4)”). These declines most likely reflect gains from automation that were bigger for First-Class single-piece letters as a whole, than for the metered letters. This may have resulted from differences in mail piece characteristics between single-piece letters and metered single-

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piece letters. Non-metered single-piece letters may have a higher share of pieces which are script addressed, for instance. All differences in characteristics have played a role in the narrowing of the unit costs, not just different “indicia” as indicated in your question.

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ABA&NAPM/USPS-T21-30. For the following cost pools for BMM, please explain why the unit mail processing costs have fallen so dramatically since R2001-1, and list the craft wages associated with each activity for the appropriate time periods.

1OPBULK from 0.154 cents to 0.032 cents in R2005-1
1OPREF from 0.525 cents to 0.321 cents in R2005-1
1POUCHNG from 0.368 cents to 0.023 cents in R2005-1

RESPONSE:

Much of the work previously done in these cost pools is now included in the new cost pools such as 1TRAYSRT; 1DSPATCH, 1OPTRANS. See the responses of witness Van-Ty-Smith, USPS-T-11 to Time Warner interrogatories TW/USPS-T11- 1, 5-9 and witness McCrery, USPS-T-29, responses to Time Warner interrogatories TW/USPS-T11- 5-9.

The mail handler wages projected for test year 2003 (from Docket No. R2001-1) is \$29.98, while the test year 2006 mail handler wage is projected to be \$34.49. See USPS-LR-K-50, page 428 and USPS-LR-J-50, page 456.

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ABA&NAPM/USPS-T21-33. Please explain the two new cost pools for MODS 12, AFSM100 and FSM/1000.

RESPONSE:

See USPS-LR-K-1, page 3-6. See also USPS-LR-K-55, pages I-14 and I-15. To learn more about this equipment see witness McCrery's testimony, USPS-T-29, at pages 12-13.

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ABA&NAPM/USPS-T21-34. In MODS 11 BCS/ the unit cost for single piece letters from R2000-1 was 2.10 cents for the test year, whereas in R2005-1 the test year unit cost for the new MODS11 category BCS/DBCS is higher, at 2.13 cents.

- a. If unit costs are going up, where are the alleged efficiencies from conversion to DBCS?
- b. Is this a weighted average number between BCS and DBCS?
- c. What are the factor(s) driving up the unit costs of MODS11?
- d. Are the MODS11 cost pools additive? That is, for example, for the First Class automated letter category, is the appropriate comparison with R2000-1's unit cost of 1.17 cents the R2005-1 0.98 cent cell or the 0.98 cent cell plus the 0.10 cent cell?

RESPONSE:

- a. The efficiencies are demonstrated by the overall decline in the mail processing unit cost from test year 2000 (of Docket No. 2000-1) of 12.30 cents to test year 2006 mail processing unit costs of 11.42 cents (see LR-K-53, shp06usps.xls, sheet "Letters (4)" and LR-I-81, mpshusty.xls, sheet "Letters (4)").

Please note that the comparison you've made is incomplete, in that MODS 11 BCS for test year 2000 included all types of BCS (MPBCS, DBCS and CSBCS) at plants. For test year 2006, MPBCS costs at plants are still included in MODS 11 BCS, but DBCS and CSBCS costs are included in MODS 11 BCS/DBCS. So the comparable unit cost for test year 2006 is 2.42 cents (0.29 + 2.13), adding in the 0.29 cents for MODS 11 BCS. As a result, there is an even larger increase 2.10 cents vs. 2.42 cents, than your question indicated. The reason overall costs are lower is that the growth in automation, while increasing processing unit costs for all BCS in total, has lowered other processing costs by

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more, particularly manual letter sorting.

- b. See response to part a.
- c. See response to part a.
- d. See response to part a.

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ABA&NAPM/USPS-T21-35. What has become of the following cost pools from R2000-1, which do not appear in R2005-1: MODS 41, 42, 43, 44 and 48 (two cost pools); MODS 99 1SUPP_F4? Please cross-walk these to any new replacement cost pools, and include the unit cost levels from the updated old cost pools that are cross-walked, not just the operations. Please do the cross walks by 2 digit as well as 3 digit MODS categories.

RESPONSE:

See the testimony of witness Van-Ty-Smith, USPS-T-11, page 5 for a discussion of the fate of “MODS 41, 42, 43, 44 and 48 (two cost pools); MODS 99 1SUPP_F4 “

An approximate cross walk of the “new” cost pools to the “old” is provided in the Attachment to this response for First-Class single-piece letters and First-Class single-piece metered letters. Page one of this Attachment shows the mail processing unit costs after “cross walking” to the “old” cost pools. The unit costs for the “new” cost pools for these categories of letters can be found in USPS-LR-K-53, page 67, columns BE to BL (or see shp06usps.xls, sheet “Letters (4).”) The unit costs for the “new” cost pools are also shown at the top of the Attachment pages 3 and 4. The calculations are shown in spreadsheet provided with this response. Please note, this is not likely the same result one would obtain if indeed the “old” cost pools had been used in the work of witness Van-Ty-Smith, USPS-T-11. Results would differ to the extent the use of the “old” cost pools would have changed the base year and test year costs.

This calculation is based on a cross walk of “new” cost pool labor costs to “old” cost pool labor costs. This cross walk is shown on page 2 of the Attachment. The labor costs for “Breaks” and “Clocking In/Out” spread proportionately by column for each

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column of the top table on page 2 of the Attachment to be consistent with the “old” cost pools. In addition, some of the costs for the “old” cost pools that you list in your question are now part of window service and administrative costs. To reflect putting these costs back into the “old” cost pool costs, the “old” unit costs are adjusted for the categories that you list in the question. The adjustment is based on amount of costs which shift to window and administrative costs under the “new” cost pools as shown on page 2 of the Attachment. Pages 3 and 4 of the Attachment show the “crosswalking” of the “new” cost pool unit costs to the “old” cost pool unit costs based on the labor cost cross walk from page 2. The results are fairly consistent with the corresponding costs from Docket R2001-1, USPS-LR-J-53, page 67, except that the test year 2006 manual letter sorting costs are much lower than for the test year 2003.

Approximate Cross Walked Unit Costs From "New" to "Old" Function 4 Processing Cost Pools
 Cents Per Piece

Old" Cost Pools	MODS 99 1SUPP_F4							
	LD41	LD42	LD43	LD44	LD48 EXP	LD48 OTH	LD48_ADM	LD48_SSV
First-Class Single-Piece Letters	0.04	0.00	0.46	0.15	0.00	0.17	0.13	0.07
First-Class Single-Piece Metered Letters	0.04	0.00	0.45	0.15	0.00	0.17	0.14	0.08

Old" Cost Pools	ALLIED	AUTO/MEC	EXPRESS	MANF	MANL	MANP	MISC	REGISTRY	Total
First-Class Single-Piece Letters	0.65	0.34	0.00	0.01	0.85	0.00	0.26	0.03	3.17
First-Class Single-Piece Metered Letters	0.64	0.36	0.00	0.02	0.80	0.00	0.29	0.05	3.20

First-Class Single-Piece Letters Costs Cross Walked to "Old" Cost Pools
 From "New" Cost Pools

shp06usps.xls
 Sheet Letters (4)

New" Cost Pools	Value
ALLIED	0.90
AUTO/MEC	0.39
EXPRS	0.00
MANF	0.02
MANL	1.22
MANP	0.01
MISC	0.40
REGISTRY	0.04
	2.97

Old" Cost Pools	LD41	LD42	LD43	LD44	LD48 EXP	LD48 OTH	LD48_ADM	LD48_SSV	ALLIED	AUTO/MEC	EXPRS IN	EXPRSOU	MANF	MANL	MANP	MISC	REGISTRY		
ALLIED	0.2%	0.0%	15.4%	5.5%	0.1%	4.4%	1.5%	0.9%	72.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
AUTO/MEC	9.5%	0.1%	1.7%	0.2%	0.0%	0.4%	0.2%	0.2%	0.0%	87.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
EXPRS	0.0%	0.0%	3.0%	0.7%	27.0%	20.8%	6.3%	7.8%	0.0%	0.0%	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
MANF	0.0%	0.0%	23.4%	2.3%	0.0%	1.9%	0.5%	0.3%	0.0%	0.0%	0.0%	0.0%	71.5%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
MANL	0.1%	0.0%	20.8%	5.9%	0.0%	2.2%	0.8%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	69.6%	0.0%	0.0%	0.0%	0.0%	100.0%
MANP	0.0%	0.0%	35.4%	0.6%	0.0%	2.1%	0.9%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	60.4%	0.0%	0.0%	0.0%	100.0%
MISC	0.1%	0.0%	7.0%	1.6%	0.0%	10.7%	5.7%	9.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	65.6%	0.0%	0.0%	100.0%
REGISTRY	0.0%	0.0%	6.2%	1.5%	0.3%	6.4%	6.6%	15.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	64.0%	0.0%	100.0%

Old" Cost Pools	LD41	LD42	LD43	LD44	LD48 EXP	LD48 OTH	LD48_ADM	LD48_SSV	ALLIED	AUTO/MEC	EXPRS IN	EXPRSOU	MANF	MANL	MANP	MISC	REGISTRY		
ALLIED	0.00	0.00	0.14	0.05	0.00	0.04	0.01	0.01	0.65	-	-	-	-	-	-	-	-	-	-
AUTO/MEC	0.04	0.00	0.01	0.00	-	0.00	0.00	0.00	-	0.34	-	-	-	-	-	-	-	-	-
EXPRS	-	-	0.00	0.00	0.00	0.00	0.00	0.00	-	-	0.00	-	-	-	-	-	-	-	-
MANF	0.00	-	0.00	0.00	-	0.00	0.00	0.00	-	-	-	-	0.01	-	-	-	-	-	-
MANL	0.00	-	0.25	0.07	-	0.03	0.01	0.01	-	-	-	-	-	0.85	-	-	-	-	-
MANP	-	0.00	0.00	0.00	-	0.00	0.00	0.00	-	-	-	-	-	-	0.00	-	-	-	-
MISC	0.00	0.00	0.03	0.01	0.00	0.04	0.02	0.04	-	-	-	-	-	-	-	0.26	-	-	-
REGISTRY	-	-	0.00	0.00	0.00	0.00	0.00	0.01	-	-	-	-	-	-	-	-	0.03	-	-
Total	0.04	0.00	0.44	0.13	0.00	0.11	0.05	0.06	0.65	0.34	0.00	-	0.01	0.85	0.00	0.26	0.03	2.97	
Adjusted	0.04	0.00	0.46	0.15	0.00	0.17	0.13	0.07	0.65	0.34	0.00	-	0.01	0.85	0.00	0.26	0.03	3.17	

First-Class Single-Piece Metered Letters Costs Cross Walked to "Old" Cost Pools
 From "New" Cost Pools

shp06usps.xls
 Sheet Letters (4)

New" Cost Pools	Value
ALLIED	0.88
AUTO/MEC	0.41
EXPRS	0.00
MANF	0.03
MANL	1.15
MANP	0.01
MISC	0.45
REGISTRY	0.07
	3.00

Old" Cost Pools	LD41	LD42	LD43	LD44	LD48 EXP	LD48 OTH	LD48_ADM	LD48_SSV	ALLIED	AUTO/MEC	EXPRS IN	EXPRSOU	MANF	MANL	MANP	MISC	REGISTRY		
ALLIED	0.2%	0.0%	15.4%	5.5%	0.1%	4.4%	1.5%	0.9%	72.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
AUTO/MEC	9.5%	0.1%	1.7%	0.2%	0.0%	0.4%	0.2%	0.2%	0.0%	87.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
EXPRS	0.0%	0.0%	3.0%	0.7%	27.0%	20.8%	6.3%	7.8%	0.0%	0.0%	34.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
MANF	0.0%	0.0%	23.4%	2.3%	0.0%	1.9%	0.5%	0.3%	0.0%	0.0%	0.0%	0.0%	71.5%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
MANL	0.1%	0.0%	20.8%	5.9%	0.0%	2.2%	0.8%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	69.6%	0.0%	0.0%	0.0%	0.0%	100.0%
MANP	0.0%	0.0%	35.4%	0.6%	0.0%	2.1%	0.9%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	60.4%	0.0%	0.0%	0.0%	100.0%
MISC	0.1%	0.0%	7.0%	1.6%	0.0%	10.7%	5.7%	9.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	65.6%	0.0%	0.0%	100.0%
REGISTRY	0.0%	0.0%	6.2%	1.5%	0.3%	6.4%	6.6%	15.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	64.0%	0.0%	100.0%

Old" Cost Pools	LD41	LD42	LD43	LD44	LD48 EXP	LD48 OTH	LD48_ADM	LD48_SSV	ALLIED	AUTO/MEC	EXPRS IN	EXPRSOU	MANF	MANL	MANP	MISC	REGISTRY		
ALLIED	0.00	0.00	0.14	0.05	0.00	0.04	0.01	0.01	0.64	-	-	-	-	-	-	-	-	-	
AUTO/MEC	0.04	0.00	0.01	0.00	-	0.00	0.00	0.00	-	0.36	-	-	-	-	-	-	-	-	
EXPRS	-	-	0.00	0.00	0.00	0.00	0.00	0.00	-	-	0.00	-	-	-	-	-	-	-	
MANF	0.00	-	0.01	0.00	-	0.00	0.00	0.00	-	-	-	-	0.02	-	-	-	-	-	
MANL	0.00	-	0.24	0.07	-	0.03	0.01	0.01	-	-	-	-	-	0.80	-	-	-	-	
MANP	-	0.00	0.00	0.00	-	0.00	0.00	0.00	-	-	-	-	-	-	0.00	-	-	-	
MISC	0.00	0.00	0.03	0.01	0.00	0.05	0.03	0.04	-	-	-	-	-	-	-	0.29	-	-	
REGISTRY	-	-	0.00	0.00	0.00	0.00	0.00	0.01	-	-	-	-	-	-	-	-	-	0.05	
Total	0.04	0.00	0.43	0.13	0.00	0.12	0.05	0.07	0.64	0.36	0.00	-	0.02	0.80	0.00	0.29	0.05	3.00	
Adjusted	0.04	0.00	0.45	0.15	0.00	0.17	0.14	0.08	0.64	0.36	0.00	-	0.02	0.80	0.00	0.29	0.05	3.20	

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ABA&NAPM/USPS-T21-36. Please explain fully how the following new cost pools relate to the cost pools from R2000-1, cross walk them from new to old at the 2 digit and 3 digit MODS levels, operation to operation, and by unit cost: MODS 13, 1TRAYSRT; MODS17 1CANCEL, 1DSPATCH, 1FLATPRP, 1MTRPREP, 1OPTRANS, 1PRESORT; MODS 19 INTL ISC, and PMPC.

RESPONSE:

See the responses of witness Van-Ty-Smith, USPS-T-11 to Time Warner interrogatories TW/USPS-T11- 1, 5-9 and witness McCrery, USPS-T-29, responses to Time Warner interrogatories TW/USPS-T11- 5-9. These responses relate the old and new cost pools. For a more detailed comparison see LR-K-55, pages I-15 to I-19 and for Docket No. 2000-1, LR-I-106, part I.

It is not possible to provide unit costs for the old cost pools since many of the new cost pools involve operations that didn't exist in base year 1998 or 1999 (or test year 2000). In addition, the MODS operations themselves have been redefined. Again, see the responses of witness Van-Ty-Smith, USPS-T-11 to Time Warner interrogatories TW/USPS-T11- 1, 5-9 and witness McCrery, USPS-T-29, responses to Time Warner interrogatories TW/USPS-T11- 5-9. See also LR-K-55, pages I-15 to I-19 and for Docket No. 2000-1, LR-I-106, part I.

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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