Postal Rate Commission
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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 KELLEY
TO INTERROGATORIES OF VALPAK (VP/USPS-T16-6-11, 13, 15-18)
(June 3, 2005)

The United States Postal Service hereby provides the responses of witness Kelley to the following interrogatories of ValPak, filed on May 20, 2005: VP/USPS-T16-6-11, 13, 15-18. Responses to questions 12 and 14 have not been completed.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 3, 2005

VP/USPS-T16-6.
Please refer to the "PRC Test Year Unit Costs" in Table 1 of your testimony (USPS-T-16) beginning on page 5, for delivery of various categories of Standard Regular and Standard ECR mail, among others. Focusing on the nature of carrier operations, the physical nature of the mailpieces involved, the way the mail is prepared or otherwise arrives at the carrier station, and the costing information and steps that lead to these costs, please provide narrative responses to the following questions. Be sure to point out differences between in-office and street costs and between city and rural. Note that this question does not ask you to endorse PRC costing, but rather to describe what the costs mean and how they are developed.
a. Please provide explanation and perspective on the result that ECR Basic **flats** cost 6.152 cents to deliver while ECR Basic **letters** cost 9.694 cents. That is, why and how does this result occur, and what does it mean? The obvious problem is that one would expect the cost of letters to be **less** than the cost of apparently corresponding flats.
b. Do you agree that the results recounted in preceding part a are counter-intuitive, possibly in extreme degree? If you do not, please explain why. If you do, please explain the nature of the result that you would find intuitively acceptable.
c. Please provide explanation and perspective on the result that **ECR** Basic flats cost only 6.152 cents to deliver while **Regular** flats cost 9.795 cents, the latter being indicated by the cost for "Regular Flat Subtotal." Why and how does this result occur, and what does it mean?
d. Please consider the two non-automation, letter categories of "ECR Basic Letters" and "Nonmach 3-Digit" Letters, and explain why ECR Basic Letters cost 9.694 cents to deliver and Non-machinable 3-Digit Letters cost only 6.552 cents. Why and how does this result occur, and what does it mean? Please provide any information available on the proportion of ECR Basic letters that are machinable.

Response

a. Please refer to the Postal Service's response to POIR No. 3, Question 3(d).

b. Please refer to the Postal Service's response to POIR No. 3, Question 3(d).

Based on this response, I agree that the 3.142 cents by which the LR-K-101 ECR Basic Letters unit cost - 9.694 cents - exceeds the corresponding 6.152 cents ECR Basic flats unit cost is counter-intuitive. A more acceptable result derivable from LR-K-101 is obtained by eliminating the LR-K-101 rural crosswalk that was responsible for virtually all of this excess. See the response to POIR No. 3,

Question 3(d), for an explanation of how and why the crosswalk caused most of that excess.

c. This result is attributable to two factors:

1. the excess of the 5.282 cent LR-K-101 city in-office unit cost for Standard Regular Flats over the corresponding 1.941 cent city in-office unit cost for ECR Basic Flats; and
2. the excess of the 2.328 cent LR-K-101 rural carrier unit cost for Standard Regular Flats over the corresponding 1.598 cent rural carrier unit cost for ECR Basic Flats.

Obviously, the first factor contributes more to the final result than does the second. Moreover, the excess of the 5.282 cent Standard Regular Flats city in-office unit cost over the corresponding 1.941 cents ECR Basic Flats unit cost is an operationally plausible result. It occurs because total city in-office casing costs are much higher for Standard Regular Flats than they are for ECR Basic Flats. This is to be expected, since ECR Basic Flats arrive at delivery units already sorted to a finer degree than Standard Regular Flats.

d. This result occurs for the same reason that the ECR Basic letters unit cost exceeds the ECR Basic flats unit cost by over 3 cents, as was noted in question 6a. As the Postal Service's response to POIR No. 3, Question 3(d) explains, the excess of the ECR Basic letter unit cost over the Nonmach 3-Digit Letters unit cost (that, from an operational perspective, one would expect to be higher) occurs because of the LR-K-101 rural crosswalk. This crosswalk reallocates the rural-delivery cost of nearly 1.4 billion Rural Carrier Cost System ECR Basic flats

into ECR Basic letters, without reallocating a corresponding volume of RPW ECR Basic flats to ECR Basic letters. Such an unbalanced reallocation increases the ECR Basic rural carrier unit by nearly 3 cents.

VP/USPS-T16-7.
Please refer to the "USPS Test Year Unit Costs" in Table 1 of your testimony (USPST-16) beginning at page 5, for delivery of various categories of Standard Regular and Standard ECR mail, among others. Focusing on the nature of carrier operations, the physical nature of the mailpieces involved, the way the mail is prepared or otherwise arrives at the carrier station, and the costing information and steps that lead to these costs, please provide narrative responses to the following questions. Be sure to point out differences between in-office and street costs and between city and rural.
a. Results are shown for the cost of detached address labels ("DALs") distributed in two different ways, one on Saturation letters and the other on Saturation flats. Please explain which of these is more relevant for rate development purposes, and the extent to which it is relevant. If neither is relevant, provide alternative costs.
b. For ECR Basic letters, the delivery cost of Auto letters is shown to be 2.902 cents and of non-Auto letters to be 5.358 cents.
(i) Please explain the extent to which the lower cost for Basic Auto Letters is due to delivery point processing ("DPSing"). What proportion of these letters is DPS'd?
(ii) Please explain any factors other than DPSing that accounts for the lower costs of Basic Auto letters.
(iii) What proportion of the non-Auto Basic letters is DPS'd?
c. For ECR letters, with DAL costs distributed to flats, please compare the delivery cost of Saturation letters, 3.876 cents, to the corresponding cost of Basic Auto letters, 2.902 cents.
(i) Please confirm that Saturation letters must be pre-barcoded.
(ii) What proportions of the letters in these two categories are DPS'd?
(iii) Please explain any factors other than DPSing that explains the cost difference between these two categories.
(iv) To what extent is the proportion of Saturation letters that is DPS'd expected to increase in the test year?
d. For each of the costs in Table 1 for Standard Regular and Standard ECR, please explain whether the USPS costing results are estimates of marginal costs. If they are, please outline the assumptions that must be made to arrive at a conclusion that they are proper estimates of marginal costs. If they are not, please explain the costing theory that guides the estimation process.

Response:

a. I am not responsible for developing rates. My task is to derive accurate unit delivery costs by rate category. In those terms, it is more appropriate for DAL costs to be assigned to ECR Saturation flats. The justification for this

position rests in the manner in which the volume of DAL mailings are counted as volume in RPW, the denominator in calculating unit delivery costs. DAL mailings are recorded in alignment with the shape of the host piece in RPW. Therefore, the costs of DAL mailings should be assigned to ECR Saturation flats to derive the unit cost.

b.(i).The disparity in the unit costs for delivering ECR Basic Auto letters and ECR Basic non-Auto letters can be traced mainly to the difference in delivering the two types of mail on city letter routes (1.35 and 3.97 cents per piece respectively). The discrepancy in the unit costs on city letter routes is due to the fact that the DPS percentage for ECR Basic Auto letters delivered on city routes is 76.0 percent as compared to 29.7 percent for ECR Basic non-Auto letters.

On rural routes ECR Basic Auto letters have a unit cost of 1.55 cents as compared with 1.39 cents for ECR Basic non-Auto letters. The reason for the slightly higher unit costs for rural carriers was that a higher percentage of the total ECR Basic Auto letters (42.1%) was delivered on rural routes as compared with the percentage of ECR Basic Non-Auto letters delivered on rural routes (30.2%).

The Carrier Cost System, city and rural combined, estimates the DPS percentage for ECR Basic Auto letters to be 65.09.

(ii). The other major factor that impacts the unit delivery costs is the manner in which RPW volume for those two categories was distributed amongst city and rural letter routes. The costs are distributed differently on these two delivery modes, to more accurately reflect the manner in which the respective carriers

were compensated. The fact that a higher proportion of ECR Basic Non-Auto (68.7%) as compared with the proportion of ECR Basic Auto (48.7%) was delivered on city letter routes contributes to the unit cost difference between the two categories.

(iii). The Carrier Cost System, city and rural combined, estimates the DPS percentage for ECR Non-Auto letters to be 30.3.

c.(i). Not confirmed. Saturation letters with simplified addresses, for example, are not required to be prebarcoded to receive the saturation letter rate.

(ii). The Carrier Cost System, city and rural combined, estimates the DPS percentages to be 65.09 and 27.48 for ECR Basic Auto and ECR Saturation respectively.

(iii). The proportion of volume delivered to city and rural letter routes impacts the unit costs of the two types of mail, since the costs are different for those two types of delivery.

(iv). I am unaware of any forecast of the test year DPS percentage for Saturation letters. LR-K-67 implicitly assumes that this test year percentage equals the base year percentage.

d. My understanding is that all of the unit costs in Table 1 are estimates of marginal costs. Please see USPS-LR-K-1, Appendix H for an explanation of the assumptions that must be made to arrive at the conclusion that these are proper estimates of marginal costs.

VP/USPS-T16-8.
In footnote 1 on page 6 of your testimony, you say: "The large discrepancies between the methods leads to the conclusion that they cannot be compared."
a. Does the word "methods" in the quoted sentence refer to the USPS costing method and the PRC costing method? If it does not, please explain what it refers to.
b. By "discrepancies," do you mean the differences in the costs found by the two approaches? Please explain any other meaning.
c. What is it about the size of the discrepancies that leads you to the conclusion that they cannot be compared? Alternatively, how small would the discrepancies have to be to allow you to "compare" them?
d. Do you agree that it is possible to explain the information inputs to each method, the steps that led to the results in each method, and therefore what each result reflects? If you do not, please explain why not.

Response

a. Yes.

b. The discrepancies refer to the largely different methods utilized to derive the unit delivery costs with the USPS and PRC methods. In other words, I was trying to emphasize, with the footnote in my testimony, that the disparate methods in the two approaches make it difficult to ascertain why a final unit cost in the USPS version is different from its counterpart in the PRC version.

c. Reference to the magnitude of the discrepancies is a qualitative statement rather than a quantitative statement. I cannot quantify the magnitude of the discrepancies that would allow meaningful comparisons. The footnote was inserted to underscore the incongruities between the PRC and USPS methods.

d. While one could trace though the inputs and computational algorithms for each approach individually, the comparison of results is made difficult by the multitude of differences between the two approaches.

VP/USPS-T16-9.
Please provide the percentage of letters in each category of Regular and ECR mail that is delivery point sequenced.
a. Please explain the role that the extent of DPSing plays in explaining the relative levels of the various results for letters.
b. Please explain the relative proportions of DPS'd mail that one should expect in the test year.

Response

Category	DPS Percentage
Std Nonauto nonmmach mixed ADC	0
Std Nonauto nonmmach ADC	0
Std Nonauto mach mixed AADC	82.14
Std Nonaurto mach AADC	82.14
Std Nonauto nonmach 3 digit	0
Std Nonauto nonmach 5 digit	0
Std Nonauto mach 3 digit	84.40
Std Nonauto mach 5 digit	84.40
Std Auto mixed AADC	79.57
Std Auto AADC	82.02
Std Auto 3 digit presort	83.12
Std Auto 5 digit presort	86.05
ECR Basic Auto	65.09
ECR Basic non-Auto	30.26
ECR Saturation	27.48
ECR High Density	44.31

a. The DPS percentage plays a significant role in the unit delivery costs for Standard Regular and ECR mail. Within a particular delivery mode, city or rural, the higher the DPS percentage, the lower the unit cost. However, the distribution of volume amongst city and rural routes is also an important cost driver in the unit delivery cost.

b. I am unaware of any forecast of the test year DPS percentage for Standard Mail. LR-K-67 implicitly assumes that this test year percentage equals the base year percentage.

VP/USPS-T16-10.
Please refer to library reference USPS-LR-K-67, revised, file FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls.
a. Cell D16 computes DAL mailings to Rural Business Delivery Points. Please explain why cell D15 does not have a corresponding estimate for DAL mailings to City Business Delivery Points.
b. Please provide a spreadsheet with footnotes that indicate the source of the data contained in cells B7 to B10 and B15 to B18.
c. Please provide a spreadsheet with footnotes showing the source of the data in cells F7 and F8.
d. The first part of the heading for column G states "Ratio of cell F8 to Cell D8" and the formula in G7 is "F7/D7." Please explain the relationship between this part of the heading and the formula. Also explain the purpose and use of the ratio in cell G7.
e. The second part of the heading for column G states "Ratio of cell F9 to Cell D23" and the formula in G8 is "F8/(D8+D10)." Please explain the relationship between this part of the heading and the formula. Also, please explain the purpose and use of the ratio in cell G8.
f. The heading for column H states "Ratio of cell G8 to Cell G9" and the formula in H7 is "G7/G8." Please explain the relationship between the heading and the formula. Also, please explain the purpose and use of this ratio.
g. The heading for column I states "Estimated Rural DAL Mailings Per Week Per Possible Delivery Point Based on Column H Ratio." Please explain why there is an entry in a column designated as rural DAL mailings for a row designated as "city."
h. Please provide the formulas for computing the entries in cells L6 and L7, and explain the difference between the entries in cells J7 and J8, designated "Revised Estimates of City and Rural DAL Mailings per Year" and the entries in cells L6 and L7, also designated "Revised Estimates of City and Rural DAL Mailings per Year."
i. The footnote states that "The deliveries shown in the 2003 Annual Report reflect...." Please explain why you used data from the 2003 Annual Report, rather than data applicable to Base Year 2004.

Response

a. ECR Saturation DAL mailings delivered to rural routes include mailings that consist of simplified-address DALs. To qualify for the simplified address format, these rural DALs must be sent to 100% of all possible delivery points, including

business delivery points. Specifically, Domestic Mail Manual, Section A020.2.0 (10-14-04) states that:

> The simplified address format (i.e., "Postal Customer") may be used on mail only when complete distribution (except as provided for congressional mail under E050) is made to each family or boxholder on a rural or highway contract route at any post office, and/or to all post office boxholders at a post office without city carrier service.

My understanding is that DAL mailings going to 100% of all possible rural-route residential and business delivery points are the only mailings among all city and rural saturation DAL mailings that include business delivery points.

b-h. Columns E through J in the spreadsheet "FY2004.DAL.MAILING.VOLUME.ESTIMATES.xls" that was filed with LR-K-67 were not used to calculate the final LR-K-67 estimates of BY 2004 city and rural DAL-mailing volumes (i.e., the estimates input into cells C8 and C9 of LR-K-67 worksheet '10.DALsUsECR%-EstOfRurlCovrs'.) Columns E through I in the attached workbook, "FY2004.DAL.MAILING.VOLUME.ESTIMATES.WithFootnotes.xls" show how these DAL mailing-volume estimates were derived. Footnotes have been added at the bottom of this workbook to identify data sources.

i. The footnote was not intended to appear in the spreadsheet, and is incorrect. Both this workbook, and the new workbook referred to in my response to parts b-h above, obtain total possible delivery points by delivery mode from the FY 2004 Address Management System (AMS).

Attachment to Response to VP/USPS-T-16-10

HDS-Based Estimates of FY 2004 DAL-Mailing Volume[1]

AMS Report dates:

	Sept. 30, 2004 Number of Possible Deliveries	Estimated FY04 DAL Mailings Per Week Per Delivery Point	Estimated FY04 DAL Mailings Per Year (000)
Residential Delivery Points[2]			
City	77,967,046	0.50	2,027,143
Rural	33,817,615	0.50	879,258
P. O. Box	15,634,610	0.50	406,500
Highway Contract	2,162,772	0.50	56,232
Total Residential	**129,582,043**	0.50	**3,369,133**
Total Residential - City Plus Rural Only	111,784,661	0.50	2,906,401
Business Delivery Points[2]			
City	7,185,300		
Rural	1,172,499		6,097
P. O. Box	4,321,862		
Highway Contract	58,084		151
Total Business	**12,737,745**		**6,248**
Grand Total City			2,027,143
Grand Total Rural			885,355
Grand Total P. O. Box			406,500
Grand Total Highway Contract Route			56,383
Grand Total P.O. Box and Highway Contract Route			**462,883**
		Grand Total National-Level Annual DAL Mailings=	**3,375,381**
		Alternative Formula, Grand Total National-Level Annual DAL Mailings=	**3,375,381**

Estimated Ratio of DAL Mailings Per Week Per City Res. Del. Point to DAL Mailings Per Week Per Rural Res. Del. Point	Delivery Mode	% of Total Res. Delivery Points	Dal Mailings Per Week Per Res. Del. Point	Revised Estimates Total Annual DAL Mailings	Total Annual DAL Mailings Check
	City	0.697	0.5168	**2,095,359**	
	Rural	0.303	0.4612	**817,139**	
1.12059	City Plus Rural	1.000	0.5000	**2,912,498**	**2,912,498**
	P.O. Box Plus Highway Contract Routes	N/A	0.5000	**462,883**	
	Total, National Level	N/A	0.5000	**3,375,381**	

Sources:

[1]The USPS FY 2004 Household Diary Study (HDS) was the source of the estimate of 0.5 DAL Mailings Per Week Per Delivery Point

[2]Address Management System, September 30, 2004

VP/USPS-T16-11.
Please refer to library reference USPS-LR-K-67, spreadsheet "Casing."
a. Please refer to the data in cells B12 and B13, in the column heading under the column headed "FY04 CARRM File." Please provide a spreadsheet with footnotes indicating the source of these data. If they are from FY04 CARRM File, please indicate the cells in which they occur, and, if they are computed, then indicate the formulas and source of the data used to compute these entries.
b. The headings in cells C11 and D11 are identical, and read "FY04 CCS," but the entries in cells C12-C13 are quite different from the entries in cells D12-D13. Please explain fully the difference between these two columns.
c. Please refer to the entries in cells E121-E13, under the heading "R90-1, USPST-10." Please Indicate where in the indicated reference each datum can be found, and explain whether the numbers 41.2 and 27.4 represent costs, volumes, or something else.

Response

a. It appears you are referring to cells B12 and B13 of worksheet 'EstimatesOfCased.Sat.Ltrs.Flts' in "Casing04.xls" in revised USPS-LR-K-67. A SAS program was run to derive these costs from an analysis of IOCS casing tallies. Please see the response of witness Shaw to POIR No. 2, Item 10, for information about this program. In verifying this source, however, it was discovered that the entries in cells B12 and B13 were not updated to reflect the final analysis of IOCS casing tallies. The correct entry for B12 is 25,439,000 and for B13 is 28,452,000.

b. All of the column C and D data entries are ECR saturation volumes obtained from the City Carrier Cost System (CCCS). As the headings in cells C9 and D9 indicate, columns C and D differ in that C reports non-DPS volumes, and D reports DPS volumes.

c. The references are from R90-1, USPS-T-10, exhibit F, page 1. The 41.2 and 27.4 are pieces cased per minute for sequenced mail.

VP/USPS-T16-13.
Please refer to USPS-LR-K-67, revised, file FY2004 DAL.MAILING.VOLUME.ESTIMATES.xls.
a. Cell D16 computes DAL mailings to Rural Business Delivery Points. Please explain why cell D15 does not have a corresponding estimate for DAL mailings to City Business Delivery Points.
b. Please provide a spreadsheet with footnotes that indicate the source of the data contained in cells B7 to B10 and B15 to B18.
c. Please provide a spreadsheet with footnotes showing the source of the data in cells F7 and F8.
d. The first part of the heading for column G states "Ratio of cell F8 to Cell D8" and the formula in G7 is "F7/D7." Please explain the relationship between this part of the heading and the formula. Also explain the purpose and use of the ratio in cell G7.
e. The second part of the heading for column G states "Ratio of cell F9 to Cell D23" and the formula in G8 is "F8/(D8+D10)." Please explain the relationship between this part of the heading and the formula. Also, please explain the purpose and use of the ratio in cell G8.
f. The heading for column H states "Ratio of cell G8 to Cell G9" and the formula in H7 is "G7/G8." Please explain the relationship between the heading and the formula. Also, please explain the purpose and use of this ratio.
g. The heading for column I states "Estimated Rural DAL Mailings Per Week Per Possible Delivery Point Based on Column H Ratio." Please explain why there is an entry in a column designated as rural DAL mailings for a row designated as "city."
h. Please provide the formulas for computing the entries in cells L6 and L7, and explain the difference between the entries in cells J7 and J8, designated "Revised Estimates of City and Rural DAL Mailings per Year" and the entries in cells L6 and L7, also designated "Revised Estimates of City and Rural DAL Mailings per Year."
i. The footnote states that "The deliveries shown in the 2003 Annual Report reflect...." Please explain why you used data from the 2003 Annual Report, rather than data applicable to Base Year 2004.

Response

a.-i. Refer to my response to VP/USPS-T16-10.

VP/USPS-T16-15.
Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. What are the definitions of letters, flats and parcels as used in the column headings? Specifically, do they represent definitions that are based on shape as defined in the Domestic Mail Manual ("DMM") and, if not, what is the basis or source of the definitions?

Response

Yes, they represent definitions of shape based on the DMM.

VP/USPS-T16-16.
Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. The volume of "flats" entered at Letter ECR Basic Piece Rates in cells E11 and E12 amounts to 451,126,847 pieces. Similarly, the volume of "flats" entered at Letter ECR High Density Piece Rate and Letter ECR Saturation Piece Rate, in cells E16 and E20, respectively, were 2,245,294 and 18,958,889 pieces.
a. Please give a general description of the "flats" that were entered at the ECR Basic, High Density and Saturation Letter Piece Rates.
b. Were these pieces indeed flats, as defined in the DMM?
(i) If so, how did they come to be entered at letter piece rates, and should they have paid the minimum (higher) piece rate for flats?
(ii) If they were not flats as defined in the DMM, why are they listed in the "flats" column?
c. Please provide the source of data that distinguishes and identifies these "flats" that paid the ECR Letter Piece Rates from "letters" that paid the same rate. Are the data shown in the above-cited cells taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service's sampling systems? If the latter, please specify which.
d. Please confirm that all revenue from the "flats" volume in the above-cited cells is recorded in the Billing Determinants as being derived from letters. If you do not confirm, please indicate where the revenues from this particular volume of "flats" is recorded in the Billing Determinants.
e. If one (or more) of these "flats" that was entered at an ECR Letter Piece Rate were to be the subject of an In-Office Cost System ("IOCS") sample, would it be recorded as (i) a letter or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker to record these "flats" (and the associated cost thereof) in the same manner as the revenue is recorded.

Response

a-c) The shape estimates provided in USPS-LR-K-87 are developed using postage statement information from PostalOne. To determine the processing categories of LTR ECR BASIC PIECE RATE, LTR ECR HIGH DENSITY PIECE RATE and LTR ECR SATURATION PIECE RATE the estimation procedure relies on the processing category information recorded on the front of the PS-3602 form in which the DMM processing category is indicated. The pieces in cells E11, E12, E16 and E20 reflect instances where the processing category indicated either flats (DMM C050) flats or automation compatible flats (DMM C820).

The pieces may have been entered as flats for a number of reasons including, but not limited to, 1) the acceptance clerk determining upon verification that the pieces were flats based on the DMM C050 definition and choosing not to require the customer to rework the mailing or the postage statement, 2) acceptance clerk oversight, or 3) data entry error. It is not possible to determine if the processing category was checked as flats because the piece was flat shaped or because of an error. In the case of the 449,717,662 pieces in cell E12 LTR ECR BASIC PIECE RATE the clerk may have allowed the customer to enter flats at letter rates since the letter and nonletter rates for this category of mail are equal.

d. The information in Billing Determinants measures revenue pieces and weight by rate category and is not constructed to explicitly measure DMM shape.

Revenue from flat shaped mail entered at letter rates would be recorded in letter categories.

e. My understanding is that IOCS records pieces according to DMM dimensions. Therefore the piece would be recorded as a flat. The specific instructions can be found in Docket R2000-1 in USPS-LR-I-45 pages 12-8 through 12-10.

VP/USPS-T16-17.
Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B. The entry in cells D13, D18 and D21 show, respectively, 18,485,218 Basic, 42,873,368 High Density and 283,860,163 Saturation "letters" entered at the Nonletter ECR Piece Rate.
a. Please give a general description of "letters" that elected to pay higher Nonletter ECR Basic Piece Rates in effect during GFY 2004.
b. Please provide the source of data that distinguishes and identifies these "letters" paying the Nonletter ECR Piece Rates from "letters" paying the Letter ECR Piece Rates. Are the data taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service's sampling systems? If the latter, please specify which.
c. Please confirm that the revenue from the "letters" recorded in the above referenced cells is recorded in the Billing Determinants as derived from flats. If you do not confirm, please indicate where the revenues from this particular volume is recorded in the Billing Determinants.
d. If one (or more) of these "letters" that was entered at the Nonletter ECR Basic Piece Rate were to be the subject of an IOCS sample, would it be recorded as (i) a letter, or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker record these "letters" (and the associated cost thereof) in the same manner as the revenue is recorded.

Response

a. ECR High Density and ECR Saturation letter shaped mail that is not automation compatible is required to pay the applicable nonletter rates. It is likely that the majority of the pieces in cells D18 and D21 reflect letter shaped pieces that were either not prepared as an automation mailing or were not properly barcoded. The 0.33 percent of ECR NONLTR BASIC PIECE RATE pieces may be instances where the clerk determined that the pieces conformed to the DMM C050 definition of a letter or may reflect a data entry error or clerk oversight.

b. The shape estimates provided in USPS-LR-K-87 are developed using postage statement information from PostalOne. To determine the processing categories of NONLTR ECR BASIC PIECE RATE, NONLTR

ECR HIGH DENSITY PIECE RATE and NONLTR ECR SATURATION PIECE RATE the estimation procedure relies on the processing category information recorded on the front of the PS-3602 form in which the DMM processing category is indicated. The pieces in cells D13, D18, and D21 reflect instances where the processing category indicated letters (DMM C050).

c. The information in Billing Determinants measures revenue pieces and weight by rate category, and is not constructed to explicitly measure DMM shape. Revenue from letter shape mail entered at nonletter rates would be recorded in nonletter categories.

d. My understanding is that IOCS records pieces according to DMM dimensions. Therefore the piece would be recorded as a letter. The specific instructions can be found in Docket R2000-1 in USPS-LR-I-45 pages 12-8 through 12-10.

VP/USPS-T16-18.
Please refer to Exhibit VP/USPS-T16-2, Alternative Attachment B.
a. In the "Letters" column, cells D14, D17 and D22 show, respectively, a volume of 4,288,233 pieces at the Ltr/Nonltr ECR Basic Pound Rate, 10,372,672 pieces at the High Density Ltr/Nonltr Pound Rate, and 100,384,637 pieces at the Saturation Ltr/Nonltr Pound Rate.
(i) Do these data represent the volume of "heavyweight" ECR Basic letters that weighed between 3.3 and 3.5 ounces, and paid additional postage in excess of the piece rate for weight over 3.3 ounces? Alternatively, do they represent all letter-shaped pieces that weight in excess of 3.5 ounces, and therefore paid the full pound rate?
(ii) Do they represent all letter-shaped pieces that weighed in excess of 3.3 ounces? Or, do they represent yet a possibility other than those just described? In your answer, please explain exactly what these volume data represent, and in which of the recognized rate categories they belong.
b. If one (or more) of these "letters" that was entered at the Nonletter ECR Basic Piece Rate were to be the subject of an IOCS sample, would it be recorded as (i) a letter, or (ii) a flat? Please indicate the specific IOCS instructions that direct the tally-taker to record these "letters" (and the associated cost thereof) in the same manner as the revenue is recorded.
c. Please provide the source of data that distinguishes these "letters" that paid the Nonletter ECR Pound Rates from other "letters" that paid the piece rates in their respective rate category. Are the data taken or derived from the forms used to enter the mail with the Postal Service, or are the data derived from one (or more) of the Postal Service's sampling systems? If the latter, please specify which.

Response

a. The volume reported in cells D14, D17 and D22 represents the volume of all letter shaped pieces (DMM C050) that weighed in excess of 3.3 ounces that paid either the LTR/NONLTR ECR BASIC POUND RATE, NONLTR ECR HIGH DENSITY POUND RATE, or NONLTR ECR SATURATION POUND RATE.

b. My understanding is that IOCS records pieces according to DMM dimensions. Therefore the piece would be recorded as a letter. The

specific instructions can be found in Docket R2000-1 in USPS-LR-I-45 pages 12-8 through 12-10.

c. The shape estimates provided in USPS-LR-K-87 are developed using postage statement information from PostalOne. To determine the processing categories of LTR/NONLTR ECR BASIC POUND RATE, NONLTR ECR HIGH DENSITY POUND RATE and NONLTR ECR SATURATION POUND RATE the estimation procedure relies on the processing category information recorded on the front of the PS-3602 form in which the DMM processing category is indicated. The pieces in cells D14, D17, and D22 reflect instances where the processing category indicated letters (DMM C050).

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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Eric P. Koetting

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