

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 THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF VALPAK (VP/USPS-T28-38-40, 45), REDIRECTED
FROM WITNESS TAUFIQUE
(June 10, 2005)

The United States Postal Service hereby provides its response to the following interrogatory of ValPak, filed on May 27, 2005: VP/USPS-T28-38-40, 45, redirected from witness Taufique.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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VP/USPS-T-28-38.

Using PRC costing, in Docket No. R2001-1, the cost of Basic automation letters in ECR was 6.514 cents and, in Docket No. R2005-1, it is 6.341 cents, constituting a decline of 2.66 percent. Mail processing costs declined 6.28 percent and delivery costs declined 1.45 percent. For Docket No. R2001-1 costs, see USPS-LR-J-83 (mail processing) and PRC-LR-7 (delivery). For Docket No. R2005-1 costs, see USPS-LR-K-107 (mail processing) and USPSLR-K-101 (delivery).

a. Please confirm the numbers above. In any are incorrect, please make needed corrections, explain the corrections fully, supply corresponding proportionate changes, and answer the remainder of this question based on your corrections.

b. Please identify and discuss all factors accounting for the decline in mail processing costs, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement and in particular how it improves the estimation of marginal cost and volume variable costs.

c. Please identify and discuss all factors accounting for the decline in delivery costs, including factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how well it improves the estimation of marginal cost and volume variable costs.

d. Please explain and quantify the effect that witness Bradley's new carrier analysis (USPS-T-14) had on the delivery cost.

e. With regard to both the mail processing cost and delivery cost, please explain and quantify the effect that increased delivery point sequencing had on the results.

RESPONSE:

a. Confirmed for mail processing. Not confirmed for delivery. The percentage change is a decline of 1.43 percent rather than 1.45 percent.

b. USPS-LR-J-83 and USPS-LR-K-107 are not structured in a way to readily

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reveal how changes in factors prices, productivities, and technology affect the unit cost of the ECR rate category in question. Using the base year mail processing cost of the Standard Mail ECR subclass as a starting point, these studies create de-averaged unit costs by rate category and shape, relying upon key inputs such as IOCS tallies, test year cost and volume ratios, and drop ship cost avoidances. The degree to which the results are affected by changes in factor prices, productivities, and technology is a function of how these changes impact these key inputs, especially changes in mail processing letter operations. For a discussion of the Postal Service's current financial condition and the impact played by changing factor prices, improvements in productivities, and cost reduction programs, please see witness Tayman's testimony (USPS-T-6). For a discussion of the Postal Service's changing mail processing technologies, please see witness McCrery's testimony (USPS-T-29).

The costing methodologies used in USPS-LR-J-83 and USPS-LR-K-107 are the same, with the exception that USPS-LR-K-107 has cost pool controls at the subclass level, but not at the shape level. This difference in methodologies was the result of the production schedule of USPS-LR-K-107, related to the filing of materials for R2005-1.

c. Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not

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done an analysis of the change in accrued delivery cost and it is therefore not possible to break down the change in accrued cost to the many different reasons it occurred.

d. Witness Bradley's new analysis had no effect on PRC versions presented with the Postal Service's filing.

e. Although it is generally understood that the Postal Service has continued to shift additional Standard Mail ECR letters into the DPS mail processing stream, we have no estimates of how this shift impacts mail processing and delivery costs.

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VP/USPS-T28-39.

Using PRC costing, in Docket No. R2001-1, at PRC costing, the cost of Basic (nonautomation) letters in ECR was 9.641 cents and, in Docket No. R2005-1, it is 13.125 cents now, constituting an increase of 36.14 percent. Mail processing costs increased 14.86 percent and delivery costs increased 45.69 percent. For Docket No. R2001-1 costs, see USPSLR-J-83 (mail processing) and PRC-LR-7 (delivery). For Docket No. R2005-1 costs, see USPS-LR-K-107 (mail processing) and USPS-LR-K-101 (delivery).

- a. Please confirm the numbers above. If any are incorrect, please make needed corrections, explain the corrections fully, supply corresponding proportionate changes, and answer the remainder of this question based on your corrections.
- b. Please identify and discuss all factors accounting for the increase in mail processing costs, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.
- c. Please identify and discuss all factors accounting for the increase in delivery costs, including factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.
- d. Please explain and quantify the effect of witness Bradley's new carrier analysis (USPS-T-14) on the delivery cost.
- e. With regard to both the mail processing cost and the delivery cost, please explain and quantify the effect of the increase in delivery point sequencing.

RESPONSE:

- a. Confirmed for mail processing. Not confirmed for delivery. The percentage increase is 45.68 percent rather than 45.69 percent.
- b. Please see the response to VP/USPS-T28-38b.

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- c. Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not done an analysis of the change in accrued delivery cost and it is therefore not possible to break down the change in accrued cost to the many different reasons it occurred. A large portion of the change in unit costs can be explained by the rural crosswalk that is done as part of USPS-LR-K-101. Without the rural crosswalk the unit delivery costs, using PRC methodology, for ECR Basic Nonauto is 7.856 cents rather than 9.694 cents. For the detailed calculations please refer to the workbook LR-K-101.No.ECR.Crosswalk.xls filed as part of the response to POIR No. 3 question 3d.
- d. Witness Bradley's new analysis had no effect on PRC versions presented with the Postal Service's filing.
- e. Please see the response to VP/USPS-T28-38e.

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VP/USPS-T28-40.

Using PRC costing, in Docket No. R2001-1, the cost of Basic flats (non-automation, non-letters) in ECR was 10.017 cents and, in Docket No. R2005-1, it is 9.393 cents, constituting a decline of 6.23 percent. Mail processing costs declined 11.67 percent and delivery costs declined 3.11 percent. For Docket No. R2001-1 costs, see USPS-LR-J-83 (mail processing) and PRC-LR-7 (delivery). For Docket No. R2005-1 costs, see USPS-LR-K-107 (mail processing) and USPS-LR-K-101 (delivery).

a. Please confirm the numbers above. If any are incorrect, please make needed corrections, explain the corrections fully, supply corresponding proportionate changes, and answer the remainder of this question based on your corrections.

b. Please identify and discuss all factors accounting for the decline in mail processing costs, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.

c. Please identify and discuss all factors accounting for the decline in delivery costs, including factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how it improves the estimation of marginal cost and volume variable costs.

d. Please explain and quantify the effect of witness Bradley's new carrier analysis (USPS-T-14) on the delivery cost.

RESPONSE:

a. Confirmed for mail processing. Not confirmed for delivery. The percentage decline for ECR Basic flats is 2.82 percent.

b. Please see the response to VP/USPS-T28-38b.

c. Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is

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delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not done an analysis of the change in accrued delivery cost and it is therefore not possible to break down the change in accrued cost to the many different reasons it occurred.

d. Witness Bradley's new analysis had no effect on PRC versions presented with the Postal Service's filing.

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VP/USPS-T28-45

Using USPS costing, from Docket No. R2001-1 to Docket No. R2005-1, at the nonworkshare-related cost of **Basic** and **3/5-digit non-automation** letters in the Standard Regular commercial category (used for the letter/flat differential and the presort discounts) increased 32.34 percent and 29.63 percent, respectively. The Docket No. R2005-1 cost of each, respectively, is 22.819 cents (17.409 mail processing plus 5.410 cents delivery) and 21.306 cents (15.022 mail processing plus 6.284 delivery). Mail processing and delivery costs are shown for both categories in USPS-LR-J-60 in Docket No. R2001-1, and in USPS-LR-K-48 in Docket No. R2005-1.

- a. Focusing separately on the mail processing component, please identify and discuss all factors accounting for the increased cost, such as factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement, and in particular how well aligned it is with the concepts of marginal cost and volume variable costs.
- b. Focusing separately on the delivery component, please identify and discuss all factors accounting for the increased cost, including factor prices, changes in productivity, changes in technology, changes in the methods and procedures used in costing, changes in the way the mail is handled, and any other factors. For all changes in costing method or procedure identified, please explain why the change is an improvement and in particular how well aligned it is with the concepts of marginal cost and volume variable costs.

Response

- a. A possible reason for this increase may be related to the concerns described in the response of witness Abdirahman to POIR No.1, part a.
- b. Measured delivery cost can change for three reasons: changes in volume (including changes in mail mix), changes in operations that affect the way mail is delivered or changes in the method of calculation. Changes in the first two will affect the accrued cost for delivery. Changes in the latter affect how much of the accrued delivery cost is attributed to each product. The Postal Service has not done an analysis of the change in accrued delivery cost and it is therefore not

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possible to break down the change in accrued cost to the many different reasons it occurred. Changes in delivery costing methodology are explained in the testimonies of Witnesses Stevens, Kelley and Bradley, which discuss why the proposed new methods are an improvement over the established methodology. For a detailed analysis of the change in carrier methodology on cost for classes and subclasses please compare the USPS base year delivery cost (e.g, USPS-LR-K-3) with the base year costs calculated under the established methodology (USPS-LR-K-93). For a detailed comparison of the effect of new carrier methodology on rate categories please compare the unit costs in LR-K-67 with LR-K-101.

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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