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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 UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. [VP/USPS-T28-46(a) and 47(a-f)]

The United States Postal Service hereby files the responses of witness Altaf H.

Taufique to the above-listed interrogatories of Valpak Direct Marketing Systems, Inc.

and Valpak Dealers' Association, Inc., filed on May 27, 2005. Each interrogatory is

stated verbatim and is followed by the response. Subparts (b-f) of VP/USPS-T28-46

have been redirected to the Postal Service for response. VP/USPS-T28-47(g) has

been redirected to witness Abdirahman for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr. Chief Counsel, Ratemaking

Michael T. Tidwell Attorney

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 (202) 268–2998; Fax –5402 June 14, 2005

**VP/USPS-T28-46.** Table 1, set out below, is taken from the first spreadsheet of file LR-K-48STDLETRS.xls of library reference USPS-LR-K-48, showing workshare-related costs for various categories of letter-size Standard Regular mail at USPS costing. A corresponding table in Docket No. R2001-1 is in USPS-LR-J-60, revised November 15, 2001.

Table 2, set out below, shows the proportionate changes in costs from the corresponding table in Docket No. R2001-1 to those shown in Table 1.

For ease of reference, certain costs are shaded in each table. Please note that not all rows in the tables, including the indented rows, are for categories recognized in rates.

a. Please confirm that if the Postal Service were designing rates for Regular letters, based on current costs, and were following the procedures of Docket No. R2001-1, it is the costs in the shaded rows in Table 1 that would be used. If you do not confirm, please present alternative costs, provide their source, and respond to the following parts of this question based on your alternative costs.

b. Please refer to Table 2, column 3, and identify and discuss all factors accounting for the 97.586 percent increase in the worksharing-related delivery costs of nonautomation, nonmachinable letters at the mixed ADC, ADC, 3-digit, and 5-digit levels, 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 refer to Table 2, column 3, and identify and discuss all factors accounting for the increase of only 0.649 percent in the worksharing-related delivery costs of nonautomation, machinable letters at the mixed AADC and AADC levels, 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.

d. In Docket No. R2001-1, the worksharing-related delivery costs were the same for nonautomation, machinable AADC letters and corresponding 3- and 5-digit letters. In Docket No. R2005-1, they are different, as shown in Table 1, column 3 — 3.879 cents for the first two and 3.682 cents for the last two.

- (i) Please explain why these costs were the same before and now are different.
- (ii) Are these Docket No. R2005-1 estimates considered to be marginal costs? If yes, please explain the assumptions

### VP/USPS-T28-46 (continued):

necessary for them to be marginal costs. If no, please explain the costing theory behind the costs.

 (iii) If these costs are marginal costs, are they based on different mixes? Is an assumption being made that any extra pieces on which a marginal cost is based have the same mix (possibly involving processing proportions) as the existing pieces in the category? Please explain the basis for any such assumption.

e. Please refer to Table 2, column 2. The increase of 31.029 percent in the worksharing-related mail processing cost of nonautomation Basic presort letters is a weighted average of its components, shown immediately below to be 38.702 percent, 35.312 percent, 22.109 percent, and 22.109 percent. Please identify and discuss all factors accounting for the increases of these four components, 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. Please also discuss the role of delivery point sequencing as regards the extent of the increase in cost.

f. Please refer to Table 2, column 2, last four rows. Despite inflation and increased delivery point sequencing, the worksharing-related mail processing costs of the four categories of automation letters (mixed AADC, AADC, 3-digit, and 5-digit) all decreased by, in the same order, 12.981 percent, 15.835 percent, 16.461 percent, and 20.623 percent. Please identify and discuss all factors accounting for these decreases, 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. Please also discuss role of increased delivery point sequencing.

# VP/USPS-T28-46 (continued):

#### Attachment to VP/USPS-T28-46 Table 1

Mail Processing         Delivery         Total           Worksharing         Worksharing         Worksharing         Worksharing           Image: Construction of the second sec	Table 1. Cost Estimates					
Worksharing         Worksharing         Worksharing         Worksharing         Related           Image: State of the state of		Mail Processing		Delivery	Tot	al
Total         Related         Related         Related         Unit Cost         Unit Co			Worksharing	Worksharing	j Worksh	naring
Unit Cost         Unit Cost         Unit Cost         Unit Cost         Unit Cost           RATE CATEGORY         (1)         (2)         (3)         (4)           Nonauto Basic Presot Flats         23 148         n/a         9 290         32 438           Nonauto Spight-Digit Presot Flats         14 528         9 280         23 318           Nonautomation Presot Letters         16 263         11 007         6 662         17 068           Nonautomation Nonmachinable ADC         27 485         32 229         11 1.049         43 278           Nonautomation Nonmachinable ADC         13 157         7 901         3 879         11 780           Nonautomation Machinable ADC         13 157         7 901         3 879         11 780           Nonautomation Machinable ADC         13 157         7 901         3 879         11 780           Nonautomation Machinable ADC         13 167         7 4901         3 862         11 109           Nonautomation Machinable ADC         13 167         7 4901         3 862         11 109           Nonautomation Machinable S-Digit         12 666         11 0.49         2 3 605           Nonautomation Machinable S-Digit         12 863         7.427         3 682         11 109           Automat		Total	Related	Related	Rela	ted
L         (1)         (2)         (3)         (4)           Nonauto Basic Presort Flats         23 148         n/a         9.230         32.438           Nonauto 3-Digit/S-Digit Presort Flats         14 528         9.230         23.818           Nonauto 3-Digit/S-Digit Presort Flats         14 528         9.230         23.818           Nonautomation Presort Letters         16 263         11.007         6.062         17.068           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nachinable 3-Digit         12.683         7.427         3.682         11.103           Automation Machinable 3-Digit         12.683         7.427         3.682         11.103           Automation AADC Presort Letters         3.691         2.519         3.744         6.313           Automation ADC Presort Letters         3.691         2.519         3.742         3.682         11.103<		Unit Cost	Unit Cost	Unit Cost	Unit	Cost
RATE CATEGORY		(1)	(2)	(3)	(4)	)
Nonauto Basic Presort Flats         23.145         n/a         9.290         32.438           Nonauto-Solgit/S-Digit Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Presort Letters         17.409         12.153         5.410         17.683           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.1049         43.275           Nonautomation Machinable Mixed ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable Mixed ADC         13.157         7.901         3.879         11.780           Nonautomation Schinable ADC         13.157         7.901         3.879         11.780           Nonautomation Schinable ADC         13.157         7.901         3.879         11.780           Nonautomation Schinable S-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable S-Digit         12.683         7.427         3.682         11.109           Nonautomation Schinable S-Digit         12.683         7.427         3.682         11.109           Nonautomation Aschinable S-Digit         12.683         7.427         3.682         11.109           Automation S-Digit Presont Letters         3.943	RATE CATEGORY					
Nonauto-Digit/E-Digit Presort Flats         14.528         9.300         2.23.818           Nonautomation Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Basic Presort Letters         17.409         12.163         5.410         17.663           Nonautomation Machinable Macd ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable ADC         29.347         7.901         3.879         11.780           Nonautomation Machinable ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable ADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 5-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Automation ADC Presort Letters         3.943         2.772         3.690         6.662           Automation ADC Presort Letters         3.691         2.619         3.794         6.313           Automation ADC Presort Letters         3.681         2.619         3.794         6.313           Automation ADG Presort Letters         11.0107         0.02         0.0 <td>Nonauto Basic Presort Flats</td> <td>23.148</td> <td>n/a</td> <td>9.290</td> <td>32.4</td> <td>.38</td>	Nonauto Basic Presort Flats	23.148	n/a	9.290	32.4	.38
Nonautomation Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Nonmachinable Mixed ADC         37.465         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         29.347         24.091         11.049         43.278           Nonautomation Machinable ADC         13.157         7.901         3.679         11.760           Nonautomation Machinable ADC         13.157         7.901         3.679         11.780           Nonautomation Machinable 3-Digit         12.653         11.049         23.202           Nonautomation Nonmachinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Automation Machinable 3-Digit         12.683         7.427         3.682         11.109           Automation AADC Presort Letters         3.643         2.577         3.680         6.662           Automation 5-Digit Presort Letters         3.641         2.519         3.734         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates         Intit Cost         Unit Cost <t< td=""><td>Nonauto 3-Digit/5-Digit Presort Flats</td><td>14.528</td><td></td><td>9.290</td><td>23.8</td><td>18</td></t<>	Nonauto 3-Digit/5-Digit Presort Flats	14.528		9.290	23.8	18
Nonautomation Basic Presof Letters         17.409         12.153         5.410         17.463           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 5-Digit         12.6409         21.153         11.049         23.202           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation AADC Presot Letters         3.691         2.519         3.794         6.313           Automation ADC Presot Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presot Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presot Letters         2.817         1.848         3.538         5.184           Table 1. Cost Estimates         (1)         2	Nonautomation Presort Letters	16.263	11.007	6.062	17.0	.68
Nonautomation Normachinable ADC         37.485         32.223         11.149         43.278           Nonautomation Machinable ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable ADC         13.157         7.901         3.879         11.780           Nonautomation Machinable 3-Digit         12.6409         21.153         11.049         32.802           Nonautomation Machinable 3-Digit         12.683         7.427         3.662         11.109           Nonautomation Machinable 3-Digit         12.683         7.427         3.662         11.109           Automation AADC Presort Letters         3.641         2.519         3.794         6.313           Automation AADC Presort Letters         3.691         2.519         3.794         6.313           Automation S-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates	Nonautomation Basic Presort Letters	17.409	12.153	5.410	17.5	<mark>63</mark>
Nonautomation Nonmachinable AUC         29.34/         24.091         11.149         35.140           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Achinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable 3-Digit         26.409         21.153         11.049         32.002           Nonautomation Nonmachinable 5-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation AADC Presort Letters         3.943         2.772         3.680         6.662           Automation AADC Presort Letters         3.691         2.519         3.794         6.313           Automation ADD Presort Letters         3.691         2.519         3.794         6.313           Table 1. Cost Estimates         Unit Cost         Unit Cost         Unit Cost         Unit Cost         Unit Cost           Vorksharing         Worksharing         Worksharing         Worksharing         Nonauto Cost         Unit Cost         Unit Cost	Nonautomation Nonmachinable Mixed ADC	37.485	32.229	11.049	43.2	/8
Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 3-Digit         12.686         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation AADC Presort Letters         3.691         2.519         3.794         6.313           Automation ASD Digit Presort Letters         3.691         2.519         3.794         6.313           Automation S-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates         Mail Processing         Worksharing           Monauto Basic Presort Flats         23.148         n/a         9.290         32.438           Nonauto Basic Presort Flats         14.528         9.290         23.818           Nonautomation Nonmachinable ADC         39.47         24.091         11.049         32.78 <t< td=""><td>Nonautomation Nonmachinable ADC</td><td>29.347</td><td>24.091</td><td>11.049</td><td>35.1</td><td>40</td></t<>	Nonautomation Nonmachinable ADC	29.347	24.091	11.049	35.1	40
Monautomation Machinable AADC         13.157         7.901         3.679         11.700           Nonautomation Nonmachinable 3-Digit         15.022         10.614         6.284         16.099           Nonautomation Nonmachinable 3-Digit         17.812         12.556         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation AADC Presont Letters         3.641         2.519         3.794         6.313           Automation ADC Presont Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presont Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates	Nonautomation Machinable Mixed AADC	13.157	7.901	3.879	11.7	80
Nonautomation 3-Digit Presor Letters         15.022         10.014         0.204         10.029           Nonautomation Nonmachinable 3-Digit         28.409         21.153         11.049         23.202           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Automation AADC Presont Letters         3.943         2.772         3.690         6.662           Automation 5-Digit Presont Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presont Letters         2.817         1.646         3.638         5.184           Table 1. Cost Estimates	Nonautomation Machinaple AADU	13.157	7.901	3.879	11.7	80
Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.049           Automation 5-Digit Presort Letters         3.943         2.772         3.690         6.662           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates         101         Worksharing         Worksharing         Worksharing           Monauto 5-Digit Presort Letters         2.3148         n/a         9.290         32.438           Nonauto Basic Presort Flats         11.623         11.007         6.062         17.068           Nonautomation Resort Letters         17.409         12.153         5.410         17.653           Nonautomation Resort Letters         16.263         11.007	Nonautomation 3-Digit/5-Digit Presort Letters	15.022	10.614	6.284	16.8	99 99
Nonautomiation Normatchinable S-Digit         17.812         12.556         11.0439         23.505           Nonautomation Machinable S-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable S-Digit         12.683         7.427         3.682         11.109           Automation Machinable S-Digit         12.683         7.427         3.682         11.109           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation ADC Presort Letters         3.691         2.519         3.794         6.313           Automation S-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates         Mail Processing         Delivery         Total           Monauto Basic Presort Letters         2.817         1.646         3.538         5.184           Monauto Basic Presort Flats         (1)         (2)         (3)         (4)           Nonauto Basic Presort Flats         14.528         9.290         32.438           Nonautomation Normachinable Mixed ADC         37.465         32.229         11.049         43.278           Nonautomation Normachinable Mixed ADC         13.157         7.901         3.879         11.780	Nonautomation Nonmachinable 5-Digit	26.409	21.153	11.049	32.2	102 105
Nonautomation Machinable 3-Digit         12.663         7.427         3.662         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.880         6.662           Automation S-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates	Nonautomation Nonmachinable 5-Digit	17.012	12.556	11.049	23.0	00
Initiation and the script         12.003         7.42         3.002         1         1.003           Automation Mixed AADC Presort Letters         3.943         2.772         3.690         6.662           Automation AADC Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184           Table 1. Cost Estimates         Mail Processing         Delivery         Total           Image: Cost Cost Estimates         Image: Cost Cost Cost Cost Cost Cost Cost Cost	Nonautomation Machinable 5-Digit	12.000	7.427	3.002	11.1	09
Automation ADC Presont Letters       4.602       3.791       4.703       7.605         Automation ADC Presont Letters       3.691       2.772       3.890       6.662         Automation ADC Presont Letters       2.817       1.646       3.538       5.184         Table 1. Cost Estimates       2.817       1.646       3.538       5.184         Table 1. Cost Estimates       Mail Processing       Delivery       Total         Mail Cost       Unit Cost       Unit Cost       Unit Cost       Unit Cost         Unit Cost       Unit Cost       Unit Cost       Unit Cost       Unit Cost         Nonauto Basic Presont Flats       23.148       n/a       9.290       32.438         Nonauto 3-Digit/5-Digit Presont Letters       16.263       11.007       6.062       17.068         Nonautomation Nonmachinable Mixed ADC       37.465       32.229       11.049       43.278         Nonautomation Nonmachinable ADC       29.347       24.091       11.049       35.140         Nonautomation Nonmachinable ADC       13.157       7.901       3.879       11.780         Nonautomation Nachinable ADC       13.157       7.901       3.879       11.780         Nonautomation Nonmachinable ADC       13.157       7.901	Automation Mixed AADC Present Letters	12.000	7.427	4 104	7.50	03 05
Automation 3-Digit Presont Letters         3.54.5         2.712         3.794         6.313           Automation 3-Digit Presont Letters         2.817         1.646         3.638         5.184           Table 1. Cost Estimates         Mail Processing         Delivery         Total           Worksharing         Worksharing         Worksharing         Worksharing           Monautomation S-Digit Presont Flats         101         C2         (3)         (4)           RATE CATEGORY         (1)         (2)         (3)         (4)           Nonauto Basic Presont Flats         14.528         9.290         32.438           Nonauto Basic Presont Letters         16.263         11.007         6.062         17.068           Nonautomation Nonmachinable Mixed ADC         37.465         32.229         11.049         32.740           Nonautomation Nonmachinable Mixed ADC         13.157         7.901         3.879         11.780           Nonautomation Nachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nachinable AADC         13.157         7.901         3.862         11.109           Nonautomation Ma	Automation AADC Preson Letters	3 9/3	0.401	3,890		20
Automation 5-Digit Presont Letters       2.817       1.646       3.538       5.184         Table 1. Cost Estimates       Mail Processing       Delivery       Total         Main of S-Digit Presont Letters       2.817       1.646       3.538       5.184         Table 1. Cost Estimates       Mail Processing       Delivery       Total         Monauto S-Digit Presont Letters       Total       Related       Related         Monauto Basic Presont Flats       23.148       n/a       9.290       32.438         Nonauto Basic Presont Flats       16.263       11.007       6.062       17.068         Nonautomation Presont Letters       16.263       11.007       6.062       17.068         Nonautomation Nonmachinable Mixed ADC       37.485       32.229       11.049       43.278         Nonautomation Nonmachinable ADC       13.167       7.901       3.879       11.780         Nonautomation Machinable AADC       13.167       7.901       3.879       11.780         Nonautomation Nonmachinable AADC       13.167       7.901       3.879       11.780         Nonautomation Machinable AADC       13.167       7.901       3.879       11.780         Nonautomation Machinable AADC       13.167       7.901       3.879	Automation 3-Digit Presort Letters	3 691	2.002	3 794	3 794 6 313	
Table 1. Cost Estimates       Mail Processing       Delivery       Total         Worksharing       Worksharing       Worksharing       Worksharing       Worksharing         Image: Cost Estimates         Image: Cost Estimates       Image:	Automation 5-Digit Presort Letters	2.817	1.646	3 538	3.538 5.184	
Mail ProcessingDeliveryTotalImage: Construction of the second	Table 1 Cost Estimates	2.011	1.040	0.000	3.10	
Main ProcessingDeriveryTotalWorksharingWorksharingWorksharingWorksharingWorksharingWorksharingImage: Construct State	Table 1. Cost Estimates		Mail Dra assoin <i>a</i>	D.	liner	Tatal
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Nonauto Basic Presort Flats         23.146         n/a         9.290         32.438           Nonauto 3-Digit/5-Digit Presort Flats         14.528         9.290         23.818           Nonautomation Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Basic Presort Letters         17.409         12.153         5.410         17.563           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable Mixed ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812	RATE CATEGORY	22.440			2 200	22,420
Nonautor 3-Digit/S-Digit Presort Letters         14.528         9.290         23.818           Nonautomation Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Basic Presort Letters         17.409         12.153         5.410         17.563           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683	Nonauto Basic Presort Flats	23.146	i n/a		9.290	32.438
Nonautomation Presort Letters         16.263         11.007         6.062         17.068           Nonautomation Basic Presort Letters         17.409         12.153         5.410         17.663           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable ADC         13.157         7.901         3.879         11.780           Nonautomation Nonmachinable 3-Digit         16.409         21.153         11.049         32.202           Nonautomation Machinable 5-Digit         12.683	Nonauto 3-Digit/5-Digit Presort Flats	14.528			9.290	23.818
Nonautomation Basic Presort Letters         17.409         12.153         5.410         17.563           Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation S-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation AADC Presort Letters	Nonautomation Presort Letters	16.263	11.007	ł	5.U62	17.068
Nonautomation Nonmachinable Mixed ADC         37.485         32.229         11.049         43.278           Nonautomation Nonmachinable ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters<	Nonautomation Basic Presort Letters	17.409	12.163		5.410	17.663
Nonautomation Nonmachinable ADC         29.347         24.091         11.049         35.140           Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters	Nonautomation Nonmachinable Mixed ADC	37.485	32.229	1	1.049	43.278
Nonautomation Machinable Mixed AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184 <td>Nonautomation Nonmachinable ADC</td> <td>29.347</td> <td>24.091</td> <td>1</td> <td>1.049</td> <td>35.140</td>	Nonautomation Nonmachinable ADC	29.347	24.091	1	1.049	35.140
Nonautomation Machinable AADC         13.157         7.901         3.879         11.780           Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Machinable Mixed AADC	13.157	7.901		3.879	11.780
Nonautomation 3-Digit/5-Digit Presort Letters         15.022         10.614         6.284         16.899           Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Machinable AADC	13.157	7.901		3.879	11.780
Nonautomation Nonmachinable 3-Digit         26.409         21.153         11.049         32.202           Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation 3-Digit Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation 3-Digit/5-Digit Presort Letters	15.022	2 10.614	6	5.284 <mark></mark>	16.899
Nonautomation Nonmachinable 5-Digit         17.812         12.556         11.049         23.605           Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Nonmachinable 3-Digit	26.409	21.153	1	1.049	32.202
Nonautomation Machinable 3-Digit         12.683         7.427         3.682         11.109           Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Nonmachinable 5-Digit	17.812	. 12.556	1	1.049	23.605
Nonautomation Machinable 5-Digit         12.683         7.427         3.682         11.109           Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Machinable 3-Digit	12.683	7.427		3.682	11.109
Automation Mixed AADC Presort Letters         4.662         3.491         4.104         7.595           Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Nonautomation Machinable 5-Digit	12.683	7.427		3.682	11.109
Automation AADC Presort Letters         3.943         2.772         3.890         6.662           Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Automation Mixed AADC Presort Letters	4.662	3.491		4.104	7.595
Automation 3-Digit Presort Letters         3.691         2.519         3.794         6.313           Automation 5-Digit Presort Letters         2.817         1.646         3.538         5.184	Automation AADC Presort Letters	3.943	2.772		3.890	6.662
Automation 5-Digit Present Letters 2817 1.646 3.538 5.184	Automation 3-Digit Presort Letters	2 601	2,519		3 794	6 313
Addition 3-Digit Tresont Letters 2.017 1.040 3.030 3.104		3.691	2.010		3.7.34	0.010

# VP/USPS-T28-46 (continued):

#### Attachment to VP/USPS-T28-46 Table 2

Table 2. Percentage Changes from Docket No. R2001-1				
	Mail Processing		Delivery	Total
		Worksharing	Worksharing	Worksharing
	Total	Related	Related	Related
	Unit Cost	Unit Cost	Unit Cost	Unit Cost
	(1)	(2)	(3)	(4)
RATE CATEGORY				
Nonauto Basic Presort Flats				
Nonauto 3-Digit/5-Digit Presort Flats				
Nonautomation Presort Letters				
Nonautomation Basic Presort Letters	33.531%	31.029%	28.615%	30.275%
Nonautomation Nonmachinable Mixed ADC	38.841%	38.702%	97.586%	50.124%
Nonautomation Nonmachinable ADC	36.077%	35.312%	97.586%	50.196%
Nonautomation Machinable Mixed AADC	28.577%	22.109%	0.649%	14.098%
Nonautomation Machinable AADC	28.577%	22.109%	0.649%	14.098%
Nonautomation 3-Digit/5-Digit Presort Letters	23.658%	26.571%	42.291%	31.994%
Nonautomation Nonmachinable 3-Digit	35.507%	34.504%	97.586%	51.050%
Nonautomation Nonmachinable 5-Digit	26.368%	21.513%	97.586%	48.226%
Nonautomation Machinable 3-Digit	28.447%	21.519%	-2.926%	12.157%
Nonautomation Machinable 5-Digit	28.447%	21.519%	-2.926%	12.157%
Automation Mixed AADC Presort Letters	-7.575%	-12.981%	5.583%	-3.846%
Automation AADC Presort Letters	-8.850%	-15.835%	1.646%	-6.440%
Automation 3-Digit Presort Letters	-8.837%	-16.461%	-0.472%	-7.534%
Automation 5-Digit Presort Letters	-9.303%	-20.623%	-5.350%	-10.800%

# **RESPONSE to VP/USPS-T28-46 (continued)**:

a. Confirmed that the designated costs would be some of the components used in

developing prices, and therefore, discounts for Regular subclass letters.

b-f.Redirected to the Postal Service.

**VP/USPS-T28-47.** Table 1, set out below, is taken from the first spreadsheet of file LR-K-48STDLETRS.xls of USPS-LR-K-48, and shows workshare-related costs for various categories of letter-size Standard Regular mail at USPS costing. For ease of reference, certain costs are shaded. Please note that not all of the lines in the table, including the indented lines, are for categories recognized in rates. A corresponding table in Docket No. R2001-1 is found in USPS-LR-J-60, revised November 15, 2001.

Please confirm that if the Postal Service were developing discounts a. for automation (*i.e.*, prebarcoded) letters based on current costs, and were following the procedures used in Docket No. R2001-1, it is the worksharerelated unit costs in the shaded rows of column 4 in Table 1 that would be used. If you do not confirm, please present the costs that would be used, provide their source, and respond to the following parts of this question. Please confirm that an automation discount for mixed AADC letters b. would be based on a cost difference of 17.563 - 7.595 = 9.968 cents. Please explain the extent to which you view the discount for C. automation mixed AADC letters to be a worksharing discount. To the extent that you do not so view it, please explain why. To the extent that you do so view it, please explain the nature of the work that is being shared.

d. To the extent to which you view the discount for automation mixed AADC letters to be a worksharing discount, please explain the extent to which you believe this discount should be based on a cost avoidance. If you do not believe it should be based on an avoidance, please explain why. If you do so believe, please explain how that avoidance should be defined, *i.e.*, its concept and the costs that should be used to implement the concept.

e. Recognizing that the 17.563-cent workshare related cost for nonautomation presort letters shown in column 4 (and its mail processing and delivery components in columns 2 and 3) is a weighted average of the four costs shown immediately below it in the table, please explain the extent to which you view the cost difference of 9.968 cents to be an amount that would be avoided if a candidate basic presort letter shifts to become an automation mixed AADC letter.

f. If an automation mixed AADC letter were to revert back to being nonautomation, is it your position that the Postal Service would experience an increase in cost of 9.968 cents? If you do, please explain how and why that cost increase would occur, and any assumptions on which it is based. If you do not, please explain why it is the appropriate cost on which to base the automation discount.

g. As shown in Table 1, the workshare-related mail processing cost of (i) nonautomation, machinable letters is 7.901 cents at both the mixed AADC and AADC levels, and of (ii) corresponding automation letters is 3.491 cents at the mixed AADC level and 2.772 cents at the AADC level.

## VP/USPS-T28-47 (continued):

- Please explain how the difference between the costs of 7.901 cents and 3.491 cents, for mixed AADC letters, relates to the cost the Postal Service would incur to read the address and place a barcode on the nonautomation piece.
- (ii) Please explain why the worksharing-related mail processing cost of automation mixed AADC letters is 3.491 cents while the corresponding cost for AADC letters is only 2.772 cents.
- (iii) Please explain why the two nonautomation costs are the same while the two automation costs differ.

# RESPONSE

- a. Confirmed that the designated cost would be one of the components used in developing prices, and therefore, discounts for automation letters.
- b. Confirmed that this is the mail processing and delivery unit cost differential between mixed AADC letters and nonautomation Basic Presort letters and that this cost difference would be part of the consideration when developing mixed AADC letter rate proposals.
- c. Rate differentials throughout the rate design for Standard Mail are routinely referred to as worksharing discounts. In this particular instance, in order to get the lower rate, the mailer must perform work that facilitates the automated handling of the letter.
- d. Please see my response to subpart c. The cost avoided due to the mailer preparing the letter in a manner to facilitate the automated processing of the letter should be the basis for this discount. Other factors may also be considered which may have the effect of increasing or decreasing the proposed rate differential.

### RESPONSE to VP/USPS-T28-47 (continued):

The worksharing cost avoidance would be the difference in costs related to the work performed by the mailer to facilitate automated handling, as described in my response to subpart c.

- e. As the question indicates, the 17.563 cent figure is an average unit cost for a category of mail having a range of characteristics. As such, unit cost differences derived from it are not claimed to represent the estimated costs that would be avoided for any specific letter that might shift from the nonautomation Basic Presort letter category to any other rate category.
- f. Please see my response to subpart e. It not is my position that the 9.968 cent figure estimates the cost increase for any specific letter migrating from the Automation Mixed AADC rate category to the nonautomation Basic Presort rate category. However, as an estimate of the average cost difference between the two categories of mail, it would be a reasonable starting point from which to begin the process of designing rates for the two categories. Please see also my response to subpart a.
- g. Redirected to witness Abdirahman USPS-T-21.