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:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO VALPAK INTERROGATORY**

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):

Table 1. Cost Estimates

RATE CATEGORY	Mail Processing Total Unit Cost (1)	Mail Processing Worksharing Related Unit Cost (2)	Delivery Worksharing Related Unit Cost (3)	Total Worksharing Related Unit Cost (4)
Nonauto Basic Presort Flats	23.148	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 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 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

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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
	Total	Worksharing Related	Worksharing Related	Worksharing 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 OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO VALPAK INTERROGATORY**

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.

  a. Please confirm that if the Postal Service were developing discounts for automation (*i.e.*, prebarcoded) letters based on current costs, and were following the procedures used in Docket No. R2001-1, it is the workshare-related 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.

  b. Please confirm that an automation discount for mixed AADC letters would be based on a cost difference of 17.563 – 7.595 = 9.968 cents.

  c. Please explain the extent to which you view the discount for 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):

    (i)   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.